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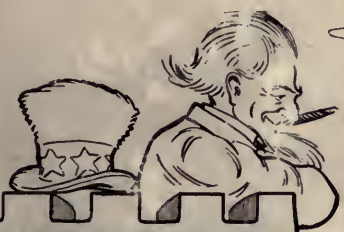
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# CO-OPERATIVE FINANCE

AN AMERICAN METHOD  
FOR THE AMERICAN PEOPLE

BY

HERBERT MYRICK



**CO-OPERATIVE RESERVE**  
UNITED TO ASSIST, NOT COM-  
BINED TO INJURE.

**CHARACTER RESERVE**



**HEALTH RESERVE**

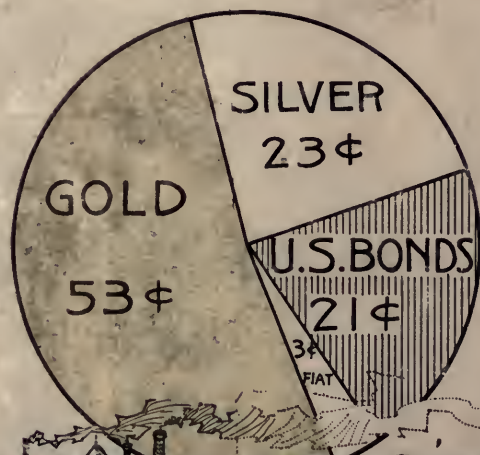
WELL BODIES, SOUND MINDS  
FIRM WILL, HAPPY SOULS

**GOLD RESERVE**

\$1,850,000,000

**LAND RESERVE**

CROPS WORTH TEN BILLIONS  
3,623,000 SQUARE MILES



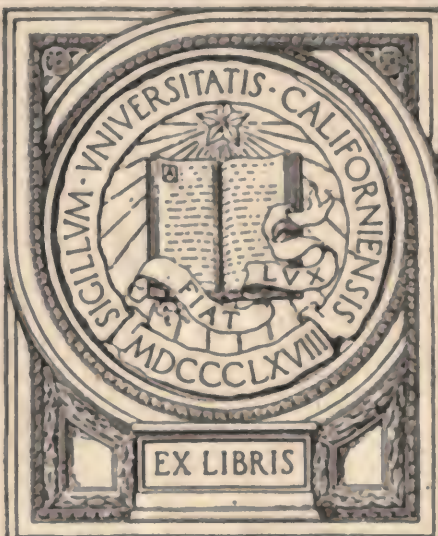
## THE AMERICAN DOLLAR THE BEST MONEY ON EARTH

UNCLE SAM: "I always knew that U S A was the best country on the globe, but even I didn't fully realize, until I read this book, how this American dollar of ours is absolutely the best money the world has ever seen! It shines over our farms, homes and factories like the sun of prosperity which it typifies.

"The United States is now able to pay in gold 100 cents on each and every dollar of American money, upon demand anywhere at any time. Our dollar today has more gold in it than the money of all Europe or other countries.

"Now let Congress give us the American monetary method for the American people, as Editor Myrick suggests, and we will have universal prosperity in town and country throughout our land, the American mercantile gain may plow the seas, and ere long the United States will dominate the commerce of the Earth!"

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## CO-OPERATIVE FINANCE

an American monetary method, attainable  
forthwith through one, single, comprehen-  
sive act of Congress, to be followed in due  
course by legislation in the respective states



*Herbert Myrick*

## The Divine Law

Co-operation — not strife,  
Is the divine law of life!

Character is the basis of exchange —  
Not gold, land, labor, nor within the range  
Of what men call property.

The instrument is good or bad  
According as the man is glad,  
And able, promise to perform.

But this means organization  
To effect the transmutation  
Of brain and hand, work and desire,  
Into forms that others require.

Not to stand alone is vital,  
Get together is immortal:  
Instead of weakness, separately,  
Strength in oneness with Infinity —

For every soul  
Is part of the Whole!

—H. M.



# *Co-operative Finance*

*An American Method  
for the American People*

CO-OPERATION



"UNITED TO ASSIST, NOT  
COMBINED TO INJURE"

To Encourage Business, Farm-  
ing, Home-Owning, Individual  
and Corporate Success, Social  
Justice and National Prosperity

How to reform banking, improve the mechanism of exchange, promote co-operation, and insure against the possibility of a money trust, through combining American experience with scientific principles  
by means readily adapted to customs, conditions and institutions throughout the United States

*By Herbert Myrick*

//

*Profusely illustrated by charts, sketches, and  
good-humored cartoons*

NEW YORK  
ORANGE JUDD COMPANY  
LONDON  
KEGAN PAUL, TRENCH, TRÜBNER & CO., LTD  
1912

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# *An American Method of Co-operative Finance to:*

1. ***Wisely Mobilize the Bases of Wealth***—gold, land and industries, labor and character, health and co-operation—as means for credit and exchanges through a sound banking system.
2. ***Safely Furnish Suitable Banking Facilities***—to all the people all the time, and ever be adequate to the country's needs for expansion or contraction.
3. ***Supply Rediscounts*** for commercial paper and farmers' notes, "acceptances," bills of exchange, "clearings," collections, national and banking reserves, credit currency in addition to government money, etc., thus remedying all the defects in our present fiscal system while making the most of its advantages.
4. ***Insure That All Deposits Shall Be Available*** when wanted, furnish gilt-edge investments, "accommodate" farmers, other workers and small businesses, as well as richer individuals and larger corporations.
5. ***Provide Land Banks to Issue Nontaxable Bonds*** secured by mortgages upon real estate—preferably owned farms and homes, thus encouraging agriculture and home-owning, while enabling other banks to realize upon such mortgages.
6. ***One Comprehensive Act of Congress*** to establish forthwith this American monetary method, to be supplemented in due course by appropriate legislation in the respective states, all designed to encourage productive industry rather than gambling on the stock exchange.
7. ***This Method Will Insure Stability in Finance***, facilitate exchange, reduce expense, risk and loss, be reasonably profitable, increasingly efficient, beneficial to all, harmful to none, promoting domestic industry and foreign trade—the foundation of an economic prosperity that shall foster social justice, and make the United States more than ever the hope of the world.

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# Nomenclature

- Value** —the expression of human effort.
- Gold** —the standard by which value is measured.
- Money** —whether in the form of gold, silver or paper, may be coined only by the government, as the prerogative of the sovereignty of all the people. It is the actual embodiment of value for use. Every dollar of it must be redeemable at par in gold at any and all times and places, being lawful money and full legal tender for all debts.
- Credit Instruments** —are the documents and records by means of which values are exchanged more conveniently and economically than with money. Checks, drafts, bills of exchange, etc., are instruments for the transfer of credits upon the books of a bank; they express *bank credits*. Cashiers' checks, or notes issued by a bank, either of which pass without indorsement, express *current credits*; they are credit currency, to be redeemed and go out of existence, as do checks, when their function is performed. Credit instruments are *not* money, but are payable in cash upon demand.
- Cash** —is actual money, exclusive of credit instruments; bank notes or any form of credits, book or current, are *not* money nor cash.
- Currency** —paper money and bank notes.
- Coin** —is of gold or silver in denominations of one dollar or more. *Minor* coin, is fractional parts of a dollar, in silver, nickel or copper.
- Exchange** —is the mechanism—organization, banks, clearing houses, book-keeping, etc., whereby values are transferred or interchanged by means of credit instruments and without necessarily using cash. In the United States probably 85 per cent of the volume of transactions in daily business is effected by credit instruments.

## Notice to this Abridged Edition

☞ The index to this volume is the entire index for the complete work, as bound in cloth and boards at \$2.50 per copy.

This abridged edition is the same as the complete edition from pages 1 to 300 inclusive. The abridgment necessarily omits about 64 pages, together with a number of illustrations, portraits, and the extraordinarily valuable chart in colors showing the mutual relationship of bank reserves, business, volume of money, supply of gold, commodity prices, tariffs and foreign trade.

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# Table of Contents

|                                       | PAGES           |
|---------------------------------------|-----------------|
| THE AMERICAN FLAG IN COLORS . . . . . | Insert in front |
| PORTRAIT OF THE AUTHOR . . . . .      | Frontispiece    |
| THE DIVINE LAW, Poem . . . . .        | i               |
| THE VISION—PREFACE . . . . .          | ix-xii          |
| NOMENCLATURE . . . . .                | viii            |

DETAILED  
CONTENTS  
ON PAGE

**PART ONE — First Principles . . . . . 1**

|                                                              | PAGES  |
|--------------------------------------------------------------|--------|
| CHAPTER I Fivefold Reserves of the American People . . . . . | 3- 7   |
| CHAPTER II Co-operation vs. Combination . . . . .            | 8- 12  |
| CHAPTER III Money and Credits . . . . .                      | 13- 17 |
| CHAPTER IV Government and Banking . . . . .                  | 18- 23 |
| CHAPTER V Essentials in Banking Reform . . . . .             | 24- 30 |

**PART TWO — Functions of Banking . . . . . 31**

|                                                         |        |
|---------------------------------------------------------|--------|
| CHAPTER VI Exchange and Banking . . . . .               | 33- 37 |
| CHAPTER VII How a Bank Is Conducted . . . . .           | 38- 44 |
| CHAPTER VIII Book Credits vs. Credit Currency . . . . . | 45- 54 |
| CHAPTER IX Defects in American Banking . . . . .        | 55- 65 |
| CHAPTER X On the Use of Acceptances . . . . .           | 67- 74 |

**PART THREE — Banking Federation . . . . . 75**

|                                                                            |         |
|----------------------------------------------------------------------------|---------|
| CHAPTER XI Co-operative Organization for Banking Fed-<br>eration . . . . . | 77- 83  |
| CHAPTER XII Merits of Federation . . . . .                                 | 84- 90  |
| CHAPTER XIII Important Considerations . . . . .                            | 91- 99  |
| CHAPTER XIV Financing Our Foreign Trade . . . . .                          | 101-105 |

**PART FOUR — How to Effect This Reform . . . . . 107**

|                                                                  |         |
|------------------------------------------------------------------|---------|
| CHAPTER XV What Each National Bank Does . . . . .                | 109-116 |
| CHAPTER XVI What the Clearing House Does . . . . .               | 117-128 |
| CHAPTER XVII What the Zone League Does . . . . .                 | 129-137 |
| CHAPTER XVIII What the American Reserve Union Does . . . . .     | 138-147 |
| CHAPTER XIX What the Government Does . . . . .                   | 148-162 |
| CHAPTER XX New Phenomena in Gold . . . . .                       | 163-183 |
| CHAPTER XXI America's Triple Reserves of Gold . . . . .          | 184-191 |
| CHAPTER XXII Postal Banking, Remittance and Collection . . . . . | 192-200 |

**PART FIVE — People's American Co-operative Banks . . . . . 201**

|                                                             |         |
|-------------------------------------------------------------|---------|
| CHAPTER XXIII Need of Banks for the Masses . . . . .        | 202-209 |
| CHAPTER XXIV European People's Banks . . . . .              | 210-223 |
| CHAPTER XXV Essentials in Co-operative Banking . . . . .    | 224-231 |
| CHAPTER XXVI Plan for National Co-operative Banks . . . . . | 232-244 |

**PART SIX — An American Land Mortgage Banking System . . . . . 245**

|                                                          |         |
|----------------------------------------------------------|---------|
| CHAPTER XXVII Elements of Land Banking . . . . .         | 247-252 |
| CHAPTER XXVIII Co-operation in Acquiring Homes . . . . . | 253-258 |
| CHAPTER XXIX European Mortgage Finance . . . . .         | 259-268 |
| CHAPTER XXX The Method for America . . . . .             | 269-281 |
| CHAPTER XXXI How the Land Bank Operates . . . . .        | 282-290 |
| CHAPTER XXXII Benefits to Investors and Others . . . . . | 291-300 |

**PART SEVEN — Addenda . . . . . 301-312**

# List of Illustrations

|                                                                              | PAGE |                                                                                                                    | PAGE |
|------------------------------------------------------------------------------|------|--------------------------------------------------------------------------------------------------------------------|------|
| The American Flag.....Prelude                                                |      | New York, New Orleans and San Francisco can soon be made centers of the world's finance and trade .....            | 100  |
| Portrait of Author..Facing Title Page                                        |      | When the United States itself finances its foreign trade.....                                                      | 103  |
|                                                                              | PAGE | Which shall it be?.....                                                                                            | 106  |
| Fivefold reserves of the American people .....                               | 2    | Condition of national banks in the United States .....                                                             | 108  |
| The trinity of economic unity....                                            | 4    | Each bank is backed by gold.....                                                                                   | 110  |
| Co-operation harnesses capital, exchange and labor.....                      | 5    | Banker to Depositor: "Oh, yes, we pay 2 per cent on checking accounts," etc.....                                   | 113  |
| Put the man above the dollar....                                             | 8    | In union there is strength.....                                                                                    | 115  |
| Centralization .....                                                         | 12   | What happens when the bank "goes broke" .....                                                                      | 116  |
| Aldrich and Vreeland bill cartoon                                            | 14   | Clearing house .....                                                                                               | 119  |
| All people profit by using credit instruments .....                          | 16   | All banks now pull together.....                                                                                   | 123  |
| Man should drive the dollar, instead of the dollar driving man               | 17   | Three harbors of refuge from the stormiest of seas.....                                                            | 128  |
| Fiscal ship .....                                                            | 18   | Zone league .....                                                                                                  | 129  |
| Finance should promote productive industry .....                             | 22   | Free gold reserve.....                                                                                             | 131  |
| Juggling with assets.....                                                    | 24   | Rigid inspection .....                                                                                             | 132  |
| No one can wonder at the decrease of the monetary commission's measure ..... | 30   | No more receivership scandal....                                                                                   | 134  |
| Capital before and after co-operation .....                                  | 32   | Fighting panic in old way (full page drawing) .....                                                                | 136  |
| Making money work.....                                                       | 34   | Fighting panic in new way (full page drawing).....                                                                 | 137  |
| Supply and demand.....                                                       | 35   | American Reserve Union.....                                                                                        | 139  |
| The people's co-operative bank..                                             | 36   | Assembly hall for American Reserve Union .....                                                                     | 141  |
| Products in a form to facilitate exchange .....                              | 37   | As it was—As it may be.....                                                                                        | 145  |
| The cotton buyer's use of checks                                             | 40   | Owner and boss .....                                                                                               | 147  |
| Possible results of draining cash away from banks.....                       | 41   | American money and what is back of it (colored chart).....                                                         | 148  |
| Bank is servant, not master.....                                             | 43   | Progress of the American dollar (colored chart) .....                                                              | 153  |
| Laborgrams .....                                                             | 45   | Total stock of gold, silver and paper money in America and Europe (colored chart).....                             | 163  |
| Naturally automatic contraction and expansion .....                          | 49   | Gold reserves and paper money (colored chart) .....                                                                | 163  |
| Credit currency, like the check, has but a brief existence.....              | 54   | Changes in world's production and consumption of gold (colored chart) .....                                        | 164  |
| Dead bank—Busted credit—No funds .....                                       | 56   | The mysterious sink-hole of India .....                                                                            | 167  |
| Separate like this—Not this way.                                             | 58   | World's production and consumption of gold 1890-99, 1900-1910 (colored chart) .....                                | 169  |
| Banking not a private snap.....                                              | 60   | Progressive development of gold reserves in United States and Europe (colored chart).....                          | 173  |
| Agriculture neglected .....                                                  | 61   | Proportion of gold reserves to loans and discounts (colored chart) .....                                           | 179  |
| Why banks fail—Seventeen reasons .....                                       | 65   | Growth of business in three decades, America, England and Europe .....                                             | 179  |
| A bill of exchange adapted to America .....                                  | 66   | Total stock of money, gold, silver and paper, Europe, United Kingdom and U. S. A. (colored chart) .....            | 181  |
| Interest rates abroad and in America .....                                   | 69   | Per capita stock of money, gold, silver and paper, Europe, United Kingdom and U. S. A. (colored chart) .....       | 181  |
| Scheme for the co-operative federation of American fiscal system             | 76   |                                                                                                                    |      |
| All have equal voice.....                                                    | 79   |                                                                                                                    |      |
| All interests watch each other...                                            | 86   |                                                                                                                    |      |
| Representation for all interests...                                          | 89   |                                                                                                                    |      |
| How is the American Reserve this morning? .....                              | 90   |                                                                                                                    |      |
| Reached by mail.....                                                         | 91   |                                                                                                                    |      |
| Chart showing how commercial banking zones depart from state lines .....     | 92   |                                                                                                                    |      |
| A typical zone.....                                                          | 93   |                                                                                                                    |      |
| Decentralization of credits.....                                             | 94   |                                                                                                                    |      |
| No chance for graft—Banker and public unite .....                            | 97   |                                                                                                                    |      |
|                                                                              |      | Total stock of gold in reserves and in circulation, France, United Kingdom and U. S. A. (colored chart) .....      | 183  |
|                                                                              |      | Per capita stock of gold in reserves and in circulation, France, United Kingdom and U. S. A. (colored chart) ..... | 183  |
|                                                                              |      | America's gold reserves (color) .....                                                                              | 184  |
|                                                                              |      | Our threefold reserves of gold (color) .....                                                                       | 191  |
|                                                                              |      | The new idea in the mail service                                                                                   | 200  |
|                                                                              |      | The world's basis of credit.....                                                                                   | 202  |
|                                                                              |      | The Caryatids of the twentieth century .....                                                                       | 205  |
|                                                                              |      | Banking basis in a Southern state                                                                                  | 207  |
|                                                                              |      | Before taking—After taking.....                                                                                    | 209  |
|                                                                              |      | "Joint and several unlimited personal liability" .....                                                             | 213  |
|                                                                              |      | Growth of co-operation in Germany .....                                                                            | 214  |
|                                                                              |      | All the people own, love, patronize and support their co-operative bank .....                                      | 216  |
|                                                                              |      | As it was—As it will be.....                                                                                       | 223  |
|                                                                              |      | An American system adapted to the American people .....                                                            | 224  |
|                                                                              |      | Wrong—Right .....                                                                                                  | 226  |
|                                                                              |      | As it is—As it will be.....                                                                                        | 228  |
|                                                                              |      | People's national co-operative banks .....                                                                         | 232  |
|                                                                              |      | Solid as the oak, but grows more rapidly .....                                                                     | 234  |
|                                                                              |      | The government's charter.....                                                                                      | 237  |
|                                                                              |      | Profits—bank .....                                                                                                 | 240  |
|                                                                              |      | Solid as Gibraltar.....                                                                                            | 244  |
|                                                                              |      | Scheme for a land bank in each state under national banking law .....                                              | 246  |
|                                                                              |      | What it costs in interest to borrow \$1,000 on typical kinds of security .....                                     | 250  |
|                                                                              |      | The great handicap under which American farmers do business.                                                       | 251  |
|                                                                              |      | Old Uncle Sam remarks: etc....                                                                                     | 252  |
|                                                                              |      | Before—joining the building and loan association—After .....                                                       | 254  |
|                                                                              |      | The plot—Exposed .....                                                                                             | 257  |
|                                                                              |      | Co-operative banks and societies in Saxony .....                                                                   | 261  |
|                                                                              |      | Paris is France.....                                                                                               | 265  |
|                                                                              |      | Type of architecture for the federal land bank in each state....                                                   | 268  |
|                                                                              |      | Each certificate holder entitled, etc. ....                                                                        | 262  |
|                                                                              |      | The American method insures conservation, supervision, encouragement .....                                         | 264  |
|                                                                              |      | Borrower and investor are represented in land bank.....                                                            | 267  |
|                                                                              |      | Strictly limited liability.....                                                                                    | 290  |
|                                                                              |      | A universal market for national farm bonds .....                                                                   | 294  |
|                                                                              |      | An investment free from all taxation .....                                                                         | 296  |
|                                                                              |      | Avoid the old financial heresy...                                                                                  | 300  |



# *The Vision*

The only permanent thing is change! Everywhere and always, progression or retrogression; nothing is fixed. "Ever the contention of positive and negative forces—evolution."

Advance results from struggle. Triumph over obstacles is the only worthwhile victory. Honest endeavor is the vital principle, rather than achievement, however glorious.

All Nature, all human history, attest these truths. Civilization is the human object lesson in evolution. Economic justice is the basis for social justice, and the degree to which both prevail measures the progress of civilization.

God's ways are beyond man's comprehension. Man's effort often is so fogged by the smoke of battle as to obstruct the vision of his progress. We see the dust, the cloud, we do not get the clear birdseye view of the whole situation. But go to the top of an exceeding high mountain on a cloudless day and how distinct appears all that previously was obscure!

So now we discern, amid the warfare of aggressive Individualism, ruthless Capitalism and extreme Socialism, the strong figure of CO-OPERATION advancing to the front. His majestic mien, his masterful bearing, his confidence-imparting atmosphere, withal his modesty and sympathy and humanity, inspire in every man and woman the conviction that Co-operation is the great leader who will conduct them to the promised land. But the people quickly learn from this leader that they can never reach the goal except through their own individual efforts, supplemented by associated effort in doing those things which can be done better by people working together rather than separately.

Just as you dimly feel the latent powers inherent within yourself that are seeking expression, so are there powers inherent but latent in the mass which are seeking an outlet. Just as these powers in the individual grow by use, education and experience, until he may accomplish the seemingly impossible, so do the powers of co-operation develop by use, training and wisdom.

When you know how, it is so easy to do anything, whether individually or collectively! The inefficient methods of the past give way to the efficient processes of the future. Past theories become obsolete in the light of modern experience. Old issues naturally wither and die in the bright sunshine of the new era. What before was complicated, now becomes simple.

Fresh evidence of these fundamental truths is afforded by the evolution of Co-operation and Exchange. This evolution long since buried the old dead issues of greenbacks and free silver. Old theories about issues of bank notes for money are nearly as dead. Even the "volume-of-money" ideal is gradually shriveling up before the powerful rays of the rising sun of Exchange.\*

The modern economic miracle is this science of exchange, and the arts by which it is being employed, with an increasing efficiency that is amazing beyond compare. New agencies and instruments for the transfer of credits and for the exchange of values are displacing money in its old sense.

\* "There is a certain grim satire in the figures of bank clearings, when one thinks of the libraries filled with blue books full of weighty arguments, all curiously wrought out to help in the settlement of the great question of bank notes. IT IS PLAIN THAT THE CHEQUE AND THE CLEARING SYSTEM ARE THE MAIN LINES UPON WHICH BANKING IS DESTINED TO RUN. Dead theories respecting notes and the right of issue belong to the generation to which they were living verities.

"TO US THE LIVING FACT IS THE SUBSTITUTION OF A NEW INSTRUMENT OF CREDIT. For the present generation, the improvement of the cheque and the clearing system, the mechanical details of office organization, those details of bookkeeping which save time, are from the enormous number of documents passing through the hands of a banker, of more weight than the most learned treatise on notes and note makers."—G. H. Pownall, to the London Institute of Bankers.



These mechanisms and instruments of exchange are to money relatively as the automobile is to the oxcart. The perfected operation of exchange in the near future will compare with existing methods, as wireless communication and transportation by the air-route may compare with the telegraph and telephone, railway and motor car of today!

Already the new phenomena in gold, first revealed in their present true relationship by this book, upset old ideas and forecast a new alignment. The application of science in practical experience is producing results in human development and in the utilization of natural resources so unexpected, so new, so pregnant with possibilities for the future, that one must fully realize these new conditions and tendencies in order to form a sound judgment as to the present of finance and the future of economics.

This book is an effort to set forth the economic transformations now going on. It offers practical suggestions whereby the American people may so organize and co-operate as fully to utilize the transcendent opportunities which now confront them.

The eye illumines the mind: hence, charts and designs are freely used in this work to illustrate its meaning. Good-humor is an aid to comprehension: hence, cartoons and kindly fun adorn these pages.

Abraham Lincoln was so "human," he could grace the most serious subject with anecdotes from life, relieve the gravest tension with a bright story, and enliven the darkest crisis with a flash of humor. Why not apply such humanhood, however poorly, to the science of economics and the art of finance?

Which reminds me of a philosophic bank president, who had a slight impediment in his speech. A character-about-town named Jacob, a ne'er-do-well with the gift of gab, went into the bank and inquired:

"Mr. President, how do you make loans to people?"

"S-s-o-m-e-times on their n-o-t-e, s-s-o-m-e-times with i-n-d-o-rsement, s-s-o-m-e-times with c-e-ollat-t-eral."

"Well, then, what must I do to get a loan?"

With shrewd kindliness the president looked him over and replied:

"Well, Jake, I g-g-u-ess you'll have to be *b-b-o-r-r-n* again!"

The dominant note in the new economics is human welfare. Equality of opportunity for each individual, co-operation among the weak as a safeguard against abuse of power by the strong, encouragement to honest endeavor among people of all ages and conditions, inspiration to achievement—the new finance must recognize these as among the essentials of the new era.

But hard work, struggle, industry, thrift, efficiency, common sense, gumption, grit, "sand," persistence—these eternal economic-social factors each of us must cultivate even more in the future than in the past.

Yet the spiritual, moral and ethical attributes may be employed to more directly promote material progress. To apply the ideals of service—to our fellows, our community, our state, our nation—will add to both the success and joy of life. To integrity of purpose, unite willingness to entertain others' views or opposing reasons. Accompany personal power with human poise, sincerity with love. Let us do the best we can each day, and the future will take care of itself, for as my mother wrote on her deathbed:

"Honest endeavor is ne'er thrown away,  
God gathers the failures day by day,  
And weaves them into His perfect plan,  
In ways that are not for us to scan."

**Co-operative Finance**

**Part One**  
**First Principles**  
**Contents**  
**of this Part**

**Chapter I—Fivefold Reserves of the American People**

|                                                | PAGE |                           | PAGE |
|------------------------------------------------|------|---------------------------|------|
| Character, health, co-operation, gold,<br>land | 3    | Association a natural law | 5    |
| The basis of business                          | 4    | Co-operative finance      | 5    |
| What is exchange?                              | 4    | Human spirituality        | 6    |
|                                                |      | Wholeness of the problem  | 6-7  |

**Chapter II—Co-operation vs Combination**

|                            | PAGE |                          | PAGE  |
|----------------------------|------|--------------------------|-------|
| Right basis for federation | 8    | Bankers recognized       | 10    |
| No "money trust"           | 9    | American conditions      | 11    |
| Reform popularly favored   | 9    | Dynamic vs. static money | 11-12 |

**Chapter III—Money and Credits**

|                                  | PAGE |                          | PAGE  |
|----------------------------------|------|--------------------------|-------|
| Gold the standard of value       | 13   | Credit instruments       | 15    |
| Ten kinds of United States money | 13   | Their character          | 16    |
| Vast trade—little money          | 14   | The people and the banks | 16-17 |

**Chapter IV—Government and Banking**

|                                                           | PAGE |                                   | PAGE  |
|-----------------------------------------------------------|------|-----------------------------------|-------|
| Government money as distinguished<br>from credit currency | 18   | Public must be represented        | 20    |
| Government controls, but is out of<br>banking business    | 19   | Bankers alone not competent       | 20    |
| As to credit currency                                     | 19   | Promote industry, not speculation | 21    |
|                                                           |      | Honest and complete               | 22-23 |

**Chapter V—Essentials in Banking Reform**

|                                       | PAGE  |                                    | PAGE |
|---------------------------------------|-------|------------------------------------|------|
| Keep each bank absolutely independent | 24    | Precautions in the public interest | 28   |
| Equality for all                      | 25    | Cater to popular needs             | 29   |
| "Private" bankers not exempt          | 26    | Co-operative federation            | 29   |
| No undue interference                 | 26-27 | Nation's example to the states     | 30   |
| Collection of checks free             | 28    | Aldrich bill dead                  | 30   |



*Fivefold Reserves of the American People*

Uncle Sam, with a satisfied air: "I guess it will be a long time before those fellows down there will even make a dent in our reserves. And every year we are building our reserves deeper, broader, higher. Each stone is growing stronger, each course firmer. The United States seems just like Nature—developing all the time."



## *Chapter I*

# *Fivefold Reserves of the American People*

*Character, health, co-operation, gold, land*

*The basis of business*

*The trinity of economic unity*

*What is exchange?*

*Association a natural law*

*Co-operative finance*

*Human spirituality*

*Wholeness of the problem*

**T**HE future of the United States as a nation depends upon the use which the American people make of their fivefold reserves:

1. Character Reserve—mind, will, soul.
2. Health Reserve—physical, mental, spiritual.
3. Co-operative Reserve—the cohesive power of individual effort when wisely associated for the common welfare.
4. Gold Reserve—making every dollar in exchanges as good as gold.
5. Land Reserve—mobilized as the basis of all wealth.

While air, land and water support all life, the real power of America lies in the extent to which each of these five reserves—Character, Health, Co-operation, Gold and Land—are harmoniously inter-related, inter-conserved, collectively utilized. Each of these five forms of national reserve must be made strong, none of them can stand alone—they must all develop in unison and operate in harmony in order to produce the largest and best results in individual and corporation, state and nation.

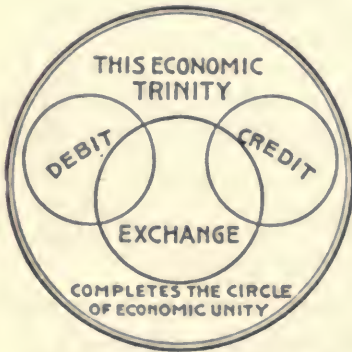
Without character and health, neither co-operation, money nor land will avail much. But associate the three latter with the

two former, and the combination is rich in endless possibilities of human endeavor, achievement and happiness. Granting this premise, the present work aims to outline a feasible method for associating land, money and human effort.

### *The Basis of Business*

Confidence is the basis of business, security the basis of credit, chance the basis of speculation.

All business is founded upon confidence rather than upon material things: evidence of the universal law that the spiritual transcends the material. No bank in existence, no nation, could pay all its obligations upon a moment's notice; if everybody demanded to be paid at once in gold, and nothing else, no one could collect ten cents on the dollar of what is due them. But you never want gold, unless you fear you cannot get gold—loss of confidence. You are satisfied to leave your money in the bank, unless you fear the bank cannot pay you when you want your funds—again, loss of confidence. Bonds and stocks drop when the holders fear they will decline in value or not be redeemed—once more, loss of confidence.



THE TRINITY OF ECONOMIC UNITY

Through (1) exchange, (2) debits balance (3) credits—one debt or transaction is set off against another. Result: balance, steadiness, proportion, activity, prosperity, economic health, social welfare, ethical progress, human happiness.

Business generally is poor or inactive and restricted when people generally have lost confidence. The state of mind, the spirits of the people,

are controlling factors. There were just as much gold, land, labor and securities in the United States the week before the panic of 1907 as during and after that tragic event, which was due so largely to loss of confidence.

### *What Is Exchange?*

All business is based upon exchange. "Exchange is making one debt pay another debt." The debt may be in the form of money or gold, of a credit or a commodity, an account

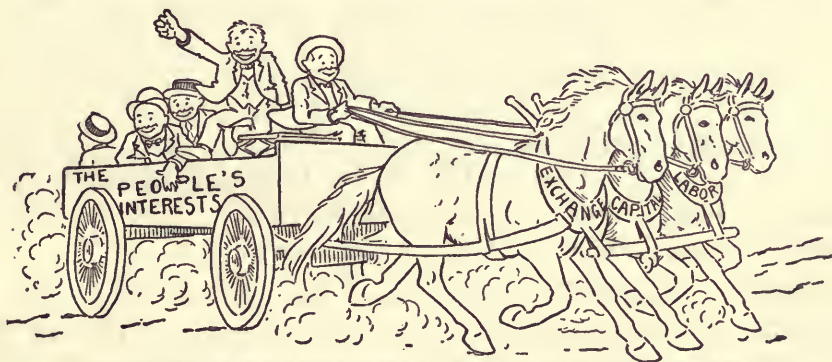
or an instrument of credit, but whatever the form of the things exchanged, the exchange itself consists in offsetting one against the other—debits and credits.

The better the agencies for safely and quickly effecting exchanges of labor, property or money, the better will be the economic prosperity of all the people. And the economic welfare of the masses is indissolubly bound up with their social, intellectual and ethical welfare, for in these respects, also, are people indissolubly associated.

### ***Association a Natural Law***

The solidarity of man is the great fact in Nature. Economic co-operation is a practical expression of the brotherhood of man.

Co-operation promotes economic harmony, and "harmony of laws, proportion and forces" is the paramount principle.



CO-OPERATION HARNESSSES CAPITAL, EXCHANGE AND LABOR, SO THAT  
ALL THREE PULL TOGETHER.

Economic harmony, the harmonious rhythm of exchange and of the varied activities of material life, is analogous to the supreme harmony of the spiritual life. The one may be likened to the music of the spheres, the other to attunement with the Infinite!

### ***Co-operative Finance***

Co-operative banking, of, by and for the common people, lies at the basis of exchange, and exchange is the basis of



all business. Hence, co-operative finance is applied Christianity. It harnesses the powers of money, credits and co-operation into one team that pulls together steadily, and draws the people's load ever forward and upward. It makes "the money power" servant, not master.

Co-operative finance aids in developing and utilizing the marvelous powers now latent in the human mass—latent, unknown, not even suspected, because of the absence of an agency through which these forces may be interpreted and expressed; just as the individual begins to comprehend the powers latent within himself only when education and experience have revealed these powers and taught him how to use them.

### *Human Spirituality*

Association with our fellows for economic welfare also develops the spirit of service, unselfish enthusiasm for noble ideals, which add to the zest of life, and create happiness, inspire hope and promote desire for better things. In the last analysis, these phenomena are spiritual, expressive of the divinity in humanity. What joy, satisfaction and harmony await every individual who seeks service, justice, wisdom, duty, righteousness, power, beauty, love, truth! How the use of these attributes promotes better living, better homes, better farming, better methods in all industries, better citizenship!

While co-operative finance is at the root of all forms of economic association, while one of its purposes is to bring the almighty dollar into its members' pockets and confer upon them large material benefits, this is coincident with the promotion of what may be broadly termed the people's spiritual welfare. Co-operation aims to bring the full and complete life within reach of all the people all the time!

### *Wholeness of the Problem*

As the spiritual and material aspects of existence co-operate in molding each life into one whole individuality, so do the various aspects of finance constitute the complete unit of our fiscal system. Hence, grasp the financial problem as a whole,

rather than piecemeal. A comprehensive method for solving the whole problem with thoroughly practical efficiency, is the need of the times—not crazy-quilt patchwork, or salve upon the sorest spots.

Nature goes to the root of things, though how delicately, economically, efficiently! In rearranging finance, let man follow Nature's object lessons.

Little help is needed from state or nation other than laws which, while improving commercial finance, shall give the farmer and the common people full and free opportunity to associate and co-operate in mobilizing their lands and other resources as a basis of credit. This can be done in a way to promote greatly the common welfare and to benefit all other forms of banking. Legislation must neither debar the people from these privileges nor make them criminals if they combine their resources.

Neither may banking reform be solely in the interest of those who operate banks for private profit, but the reform must equally promote financial institutions for the co-operative distribution of their net earnings, and other benefits. The interests of borrowers must be conserved as well as of lenders, the poor as well as of the rich.

#### CO-OPERATION



*"United to assist, not combined to injure"*

## Chapter II

## Co-operation vs Combination

*Right basis for federation**Why co-operation is right**No "money trust"**Reform popularly favored**Appreciation for bankers**Adapt finance to American conditions**Dynamic vs static money*

Put the Man Above the Dollar

**F**INANCE, like other human activities, must become more co-operative. In financial administration, the depositor and borrower are to be represented as well as the bank shareholder or bank manager. While each bank itself may be capitalistic or co-operative, as the owners may prefer, all co-operation between banks should be based upon the principle of equality of representation as expressed in one vote only for each shareholder, each customer or each bank, irrespective of their holdings, business, wealth or power.

Put the Man above the Dollar  
—the creator over the created!

Federation based upon the voting equality of the individual MAN—is co-operative and beneficent. Federation based upon voting equality of the individual DOLLAR—is combinative and capitalistic.

The one unites to relieve, the other combines to injure. The one substitutes constructive co-operation for the good of



all, in place of destructive competition for the good of a few; the other substitutes destructive "trusts" for constructive manhood. Co-operation benefits all equally; combination benefits only a few at the expense of the many.

Co-operation is man's compliance with Nature's edict; combination is man's defiance of natural law. The one is spiritual, the other material; co-operation is right, combination is wrong!

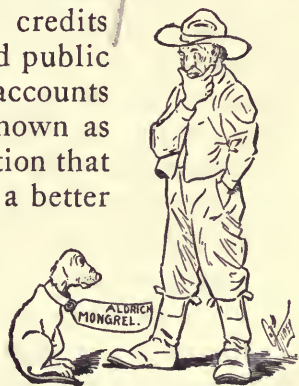
### ***No "Money Trust"***

Hence the public's opposition to any scheme that smacks of a capitalistic combination which might result in a "money trust." The people quickly sense danger—their intuitions precede their knowledge. Then follows consideration, debate, study, and conclusion. The final decision is so usually right as to give rise to the axiom that, in the last analysis "the voice of the people is the voice of God."

### ***Reform Popularly Favored***

On the other hand, the people not only welcome but demand reform, progress, efficiency. There is public appreciation of any policy that may rearrange American finance so as to make banks, money and credits the servants, not masters, of the people; and public antagonism to the opposite policy. This accounts for the failure of what has come to be known as "the Aldrich bill," and the growing conviction that what has come to be termed (for want of a better name) "the Myrick method" may be so perfected through the united effort of all as to accomplish the reforms desired for the benefit of all.

Because there has been dissatisfaction with our currency and banking system—most marked among those most informed thereon—it is a mistake to assume that the small farmer, or the workingman of small means, or the people generally, are antagonistic to capi-



And They Said He Was a Valuable Dog!

tal. They want to become capitalists, at least in a modest way, as soon as possible, but their main complaint is that the facilities for their doing so are not relatively as good for them as for those of larger means.

Such facilities can be provided, and they will increase the efficiency of the whole fiscal system. The methods herein proposed contemplate co-operative banks, which may be considered in no sense as rivals to or competitors with ordinary banks of any existing type. On the contrary, the more the common people prosper, through the help of their own little banks by means of which they help themselves, the sooner will their wealth be such that they can become profitable customers for commercial banks.

### *Bankers Recognized*

Right here a word of appreciation for American banks and bankers. As a whole, they have served their country well. The average banker and bank director is not below the average of people in other vocations in patriotism and public spirit. Their services in maintaining individual, corporate and public credit during times of stress is worthy of all praise. To be sure, there have been abuses in banking; there has been the same tendency toward combination and monopoly in banking that has been witnessed in other industries, and this tendency seems to have culminated in the Aldrich bill, but the opposition to that measure among bankers themselves, and the success of banks in maintaining our fiscal system in spite of the incubus of inefficient laws, shows that the rank and file of the banking fraternity are righteous, upright and patriotic men. The many are not to be censured for the selfishness or errors of the few.

Destructive criticism of banking and bankers is as foolish as it is cheap: a constructive method for remedying existing defects and for making the American fiscal system what it should be in the interest of all the people all the time, is as difficult to frame as it will be invaluable to our beloved country.

Even the Aldrich bill, while admittedly now a dead issue, has been worth all it cost, as an object lesson in "how not to do it"; and in business, it is quite as important to know what *not*

to do as it is to know how *to* do the right thing at the right time, in the right way at the right place!

### ***American Conditions***

In working out our fiscal salvation, it must ever be kept in mind that, while natural laws and international relations are not to be interfered with, American finance must be adapted to the American people. We cannot slavishly imitate other people's institutions. Their ways are not our ways. We rule, the Europeans are ruled; our people initiate, they have things initiated for them. Theoretically we are all of, for and by the people; they have been bred to look up to hereditary leadership. We live in the atmosphere of a republic; they are still under monarchial conditions.

Although we possess a genius for organization, a sturdy independence and peculiar individuality are characteristics of the American people, which have retarded the largest progress of co-operation among us; yet it remained for the American working man to originate, perfect and operate the finest co-operative system for helping people to own their own homes.



This Ax Will Cut the Chain

### ***Dynamic vs Static Money***

Furthermore, while the universal interest in and general demand for adequate banking facilities for those whom Abraham Lincoln dignified by the title of "the common people" can hardly be exaggerated, the greatest need seems to be in the field of farm finance.

Agriculture requires vast and universally diffused means whereby farmers may enjoy both (a) personal credit and current accommodation, and (b) land mortgage credit—two very separate and distinct needs and functions, which should ever be differentiated in the public mind as well as in actual operation. The distinction between agriculture's requirements for permanent



capital as well as personal credit, and the same needs in other industries, has been aptly emphasized by David Lubin:<sup>1</sup>

"In the ordinary commercial business, every dollar is dynamic, that is busy—when not so engaged it may be immediately returned to the bank and ceases to pay interest for the time it is not wanted. A mortgage, on the other hand, is static, or fixed money, providing a fixed amount for a fixed period. Even the farmer's working capital is much more static than is the merchant's or manufacturer's—the latter make a profit on every sale or transaction, which may be many in a single day, or week, whereas the farmer's transactions come only as a result of some six to twelve months' work, or several years' effort."

The tendency in American finance has been to centralize money and credits in town at the expense of country. To decentralize the money power among those who create it, and to so diffuse credits that retail business may be done upon a cash business, are desired reforms which may be promoted by the methods herein described.

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<sup>1</sup> See notes in Addenda for this reference, and for all other references hereafter.



CENTRALIZATION

*Chapter III**Money and Credits**Gold the standard of value**Ten kinds of money**Small volume of money relative to vast exchanges**Credit instruments**Their character**The miracle of credits**The people and the banks*

**B**ATTLES royal have been fought over the standard of values. Gold has come to be the well-nigh universally accepted standard. Silver coins, baser metals for petty coins, the paper representatives of gold and silver coins, and other forms of money, are kept "as good as gold," by being exchangeable for the precious metal.

The vast increase of late years in gold production has been regarded in certain quarters as the essential cause of the higher values of land, labor and commodities. But present new phenomena in gold indicate conditions which tend to modify this conclusion. In spite of its imperfections, however, the yellow metal seems destined to be the world's standard for many years to come. Let it be employed for measuring values, rather than as the instrument whereby the exchange of values is effected.

*Ten Kinds of United States Money*

Gold and silver coins, or certificates representing them, form but a small proportion of the medium now used for the exchange of values. In the United States, coin is supplemented, to a relatively small extent, by fiat paper currency—"promises to pay"—issued directly by the national government without specific security behind them. The controversy over the greenback was fought to a finish years ago, and no fiat paper has been uttered since 1863, except a few treasury notes in 1890. "Free silver" has long been a dead issue also.





of cash, our people's exchanges reach the incomprehensible total of 400,000 millions of dollars' value in a year of ordinary business activity—more than one hundred times the volume of our foreign trade.

### ***Credit Instruments***

Evidently but a fraction of our business transactions involve the use of cash.

What marvelous instrument is it that constitutes the principal medium whereby these exchanges, so vast in number and volume, are effected?

It is the humble check (cheque), or useful draft, or some form of an order for the transfer of credits upon the ledgers of our bankers!

These credit instruments are the chief mechanism of exchange. Their use is far more universal in America than in other nations, possibly excepting Great Britain and Canada. Nevertheless, the scientific miracle of credit transfers is not generally much better understood today than in Napoleon's time, when that mighty monarch entered and conquered Venice expecting great treasure from her wealthy banks, only to be thunderstruck at finding that her commercial supremacy was due mainly to "clearings" of book credits and debits.

Credit is satisfied with very little. Instruments for expressing, interpreting and transferring credit are the marvel of modern civilization.

Without neglecting other essentials, the more perfect the conveniences for safely employing credit instruments, it may be said that the more exchanges are facilitated, the efficiency of distribution is improved, all industries are encouraged, and the nation's economic fabric is strengthened.

"Credit is not the creator, but simply the mover of capitals. It multiplies indefinitely their services; it quickens their movement, as the rail quickens the revolution of wheels; it annihilates the obstacle of time, as steam annihilates the obstacle of space; but it does not create. It uncovers, it awakens, it fructifies; it does not invent. It is a marvelous power, without which the economic movement would not exist; but it is not a panacea. Even with enormous effective values it cannot do everything, and with nothing it will never accomplish anything. However, with next to nothing, and that is the case of the people's banks, it will effect wonders."—*Laurent, the French economist.*

### *Their Character*

These credit instruments are short-lived, temporary in character, serve their purpose and then go out of existence. Their issue automatically expands or contracts with the volume of trade or exchanges. Thus they adapt themselves perfectly to the people's needs, in marked contrast to the inelastic and panic-breeding currency-system so long in vogue.

While opinions differ upon the relative merits of the various forms of currency that may be issued by government or by banks, the public mind and expert authority quite agree that the granting of bank credits and the transfer thereof is peculiarly the function of banks.

Such credits must be kept at a parity with gold, must be honestly administered, conveniently transferred, economically managed, and should be available to all the people all the time at lowest cost consistent with absolute safety.

### *The People and the Banks*

This involves intimate knowledge and personal familiarity between the bank and its clients, which can be insured only by having many separate banks, each largely owned by the people within its territory, and conducted with special reference to the peculiar needs of its depositors and borrowers, and the other wants of its customers.



Farm, factory, store, office, all people, profit by using the bank as a source of credit instruments.

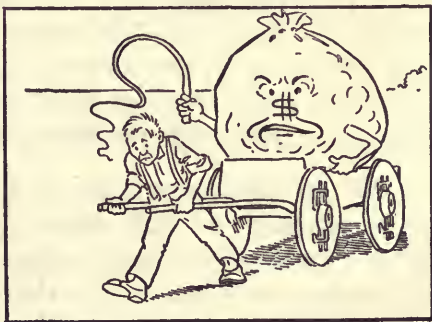
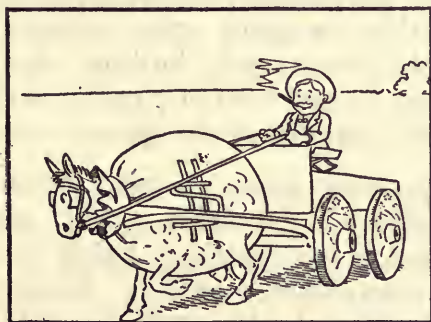
Yet these independent banks have a community of interest which binds quite closely institutions of similar type, and makes each and every kind of bank an integral part of the whole system. To insure legitimate co-operation among banks and bankers of the various types, so as safely to bring adequate banking facilities within reach of all classes of our people, is the problem. This problem must be solved in a

manner just toward all, but with special privilege to none, either now or in future.

Such ideal solution of banking problems involves education and organization, improvement and confidence, among present and would-be customers of banks as well as among bankers. Not how may the one seize unfair advantage over the other, but how may both co-operate for their mutual benefit.

To this end, the closer banking is brought to the people, the better; the further that banks are removed from the people they serve, the worse for both.

That is why the American system of many independent and popularly owned banking institutions—free from politics and bureaucrats, yet under rigidly efficient public supervision—is capable of evolving into the most perfect financial mechanism for the common good that the world has yet known. To aid in bringing about this result, along the lines set forth upon its title pages, is the object of the present work.



MAN SHOULD DRIVE THE DOLLAR, INSTEAD OF THE DOLLAR DRIVING MAN



## Chapter IV

# Government and Banking

*Government money as distinguished from credit currency*

*Government controls banking business, but is out of it*

*As to credit currency*

*Public must be represented in co-operative finance*

*Banking customers as well as bank owners*

*Bankers alone not competent*

*Promote industry, not speculation*

*Bankers not legislators, but sworn public officials*

*Important details of legislation*

*The common people's interests*



THE national government alone shall continue the coinage of gold and other coins, and the issuance of all "government money" in paper form.

Of course, the creation of "money," as distinguished from credit currency or other credit instruments, should ever be the exclusive function of the people through their federal government.

All government money must be redeemable in gold coin, whether such money is in the form of gold coin or gold bullion, silver coin, or of gold or silver certificates, or any form of paper money bearing exclusively the stamp and insignia of the government.

With the exception of subsidiary coin, all government money should be full legal tender for all debts public and private (unless otherwise stipulated in the contract), being lawful money without any other reservation whatever, because every dollar of it is as good as gold and adequately protected by a sufficient gold reserve in the United States Treasury.<sup>3</sup>

Eventually the ten kinds of government money now in use may be brought into such uniformity in theory as they now are in practice.

### ***Government Controls, but Is Out of Banking Business***

For the purposes of this discussion it is assumed that the United States Treasury is to go out of the banking business as such; that banks owned by the people are to do the people's banking business. This is the procedure followed by every nation in the world. No American state, city or town, conducts a bank.

Further issues of national bonds should not be used as a basis for bank currency, and the bank notes now secured by such bonds are to be redeemed and retired as gradually as may be consistent with sound public policy; a better form of currency is to be provided in place of bond-secured national bank notes, free from their defects, and such as shall automatically but safely expand and contract with the varying needs of business at different seasons. It is also agreed that the stock of money per capita should not be reduced.

The government shall ever possess ultimate control and full authority over any and all banking institutions which are incorporated or operated under national law. Any and all forms of banking are to be so safeguarded as forever to protect the people against the exactions of a possible "money trust"; that is to say, the law and its enforcement shall forever render impossible any manipulation of any form of money or credit in the interest of the few at the expense of the many, but shall insure equal and exact justice for one and all.

### ***As to Credit Currency***

Credit currency, in its pure and unadulterated form, is notes issued by banks instead of cashiers' checks, and of such denomination as may be convenient for the bank's clients. Like cashiers' checks whose place they take, credit currency is for temporary use and of short life. It performs its function, just as does a check, then it is sent in to the bank for collection the

same as is a cashier's check. In times of stress, the issue of notes by any bank may be increased, under appropriate regulations and taxes to prevent an overissue, but must be promptly collected and retired when the storm has blown over.

Such credit currency is not lawful money nor legal tender, but is in effect merely the cashier's check in a more conveniently available and circulatory form. Its supply automatically expands with the demand, and likewise contracts automatically as demand contracts, just as the individual uses more checks as his business transactions increase in number, and fewer checks with the decline of transactions.

The trouble in the United States has been that national bank notes violated this principle, being fixed in amount, and incapable of automatic expansion or contraction because secured by government bonds; while not legal tender they possess most of the functions of money, and all national banks are required by law to receive the notes of other national banks at par. Credit currency ready for use by bank of issue should be obtainable only from the government, so as to prevent counterfeiting or overissue, and keep it always within federal control.

### ***Public Must Be Represented***

To this end, the people who *use* banks—their customers, depositors and borrowers, who are not holders of shares therein, are to be consulted and represented as well as those who *own* banks—shareholders, directors, officers.

It is a grave mistake to conclude that the reforms required are to be secured by having *only* bankers in control of the banking federations needed for effectuating such reforms. All the vast interests involved in finance—agriculture and manufactures, labor and capital, transportation and distribution, merchant and middleman, producer and consumer—must be considered and represented in any scheme of co-operative finance which is to operate effectively and justly.

### ***Bankers Alone Not Competent***

Victor Morawitz, one of the ablest of them, says: "Few bankers in the United States are familiar with the broader ques-



tions of finance; there are even fewer who would be competent to direct the policy of a great central bank (which institution the American people will never consent to). Nearly all our bank presidents are men who have grown up in the routine of their own bank, with very little experience except in the daily business of lending money and dealing in securities for a profit."

The president of the Bank of France was not even a banker, and the Bank of England never chooses its directors from among other bankers, yet this method has worked successfully for two centuries. The latter is a corporation "organized and carried on to finance the government and control the finances of the empire, but is administered by disinterested persons free from governmental ownership or control." It is co-operative to the extent that each shareholder in the Bank of England has but one vote, irrespective of the number of shares owned, and no proxies are allowed.

In like manner, the proposed co-operative system, in which banks may affiliate for their common welfare and to protect the common good, should be in charge of experts representing those who use banks as well as those who own banks. Co-operation among banks is good, but to prevent it ever becoming bad, the foundation must be right:

First, fix the basis of representation and the form that the federations may take.

Second, specify the powers and duties, rights and privileges, of these co-operative institutions.

Put the horse before the cart, not behind it.

### ***Promote Industry, Not Speculation***

None of the associations of banks herein proposed—local, zone or national—may rediscount paper for any member bank arising out of other than commercial transactions; that is, "notes and bills of exchange issued and drawn for agricultural, industrial or commercial purposes, and not including notes or bills issued and drawn for the purpose of carrying stock, bonds and other investment securities."

Whether it is possible by other provisions of the law, national or state, to prevent the use in mere stock-exchange speculation of funds that should be employed in legitimate industry, is a grave problem worthy of most serious consideration. The foregoing proviso is simple and practical, and is one of the



Industry                      Speculation                      Agriculture  
FINANCE SHOULD PROMOTE PRODUCTIVE INDUSTRY, RATHER THAN SPECULATION

best of the relatively few good features of the Aldrich bill. If rigidly enforced, it will do much to remedy present evils in this respect, without undue interference with private rights or the natural laws of trade.

Banks should be encouraged to act as markets for the purchase and sale of sound investment securities, and shares in legitimate productive enterprises. Restriction upon speculative gambling should imply no injustice to legitimate industries. Yet banks should not countenance the sale of "blue-sky securities." Before offerings may be made to the public, the prospectus should conform to legal requirements which will afford full information to the would-be investor. In this respect the English statute is better than the new law in Kansas.

### ***Honest and Complete***

Sumptuary legislation is never effective in finance; public opinion may be. Patriotism must be applied to the ordinary transactions of banking, as in the other affairs of daily life.

To avoid even the appearance of favoritism, no member of any national or state legislative body may be an officer or director of the American Reserve Union, nor any of its zone branches, nor of any local clearing house association.

Every director and officer of a bank, national or state, should be sworn to the faithful performance of his duties. To that extent he should be esteemed a public official and held equally responsible under the law.

Not less than two-thirds of the directors of a bank shall be residents within its bailiwick, so as to insure local supervision of its operations, and prompt co-operation by a working majority of the board with the national examiner when he is auditing the bank. Such personal assistance to the examiner by the directors should be required in city banks as much as in country banks—equality to all.

Any director who fails to attend not less than two-thirds of the meetings of the board convened during any year, shall thereby be retired from the directorate, and not be eligible therefor until two years have elapsed. Directors must direct.

Loans approved by the officers and directors to concerns in which they are interested are to be made only when accompanied by detailed statements or collateral proving their worth.

In the arrangement of American finance, of which Congress should make one comprehensive job, all the minor details and defects which experience has pointed out should be attended to or remedied. One of these is the necessity for more distinctly indicating the denomination of bills, so as to facilitate their handling and counting by the many thousands of individuals and banking officials who use them. To perfect all these little matters, based on the teaching of practical experience, will greatly convenience the public.

Laws should be fair toward big banks and big business, but while those interests are quite capable of taking care of themselves, it is the "common people" whose banking requirements most need attention in the readjustment of America's fiscal system.



## Chapter V

# Essentials in Banking Reform

*Keep each bank absolutely independent*

*Equality for all*

*Private bankers not exempt from public supervision*

*No undue interference with legitimate banking*

*Co-operative federation among independent banks*

*Precautions in the public interest*

*Cater to popular needs*

*Nation's example to the states*

*The Aldrich bill dead*

**T**HE American idea of free and independent banking is to be not only preserved, but fully respected. Each individual bank must be separate from and independent of all other banks in its ownership and management. The bank may be capitalistic—one vote for each share of stock—or it may be co-operative—one man one vote, irrespective of the amount of money the man has invested in the corporation—as the statutes and its by-laws may provide.

One bank may not hold shares in another bank. No officer or director in one bank may hold either position in another bank. No two banks should have the same controlling ownership or be so closely interrelated as to interfere with their independence or their justly reasonable competition.



Juggling with assets

These recommendations will be combated bitterly in certain quarters. They will be resisted by men and concerns that are identified with chains of banks, holding companies, banking syndicates, and similar monop-

listic enterprises. Opposition will also come from the whole ilk who now fatten by juggling back and forth the assets of commercial and savings banks and trust companies.

But the hour has arrived to go to the very root of this matter. If the present system is to be the root of a tree that shall branch out into a perfect method of finance, all diseased parts of the roots must first be cut out, and the wounds upon the roots remaining must be thoroughly sterilized. No half-way job, either! The American people mean business now. They know, too, that rigid compliance with this recommendation will eventually benefit all legitimate banking—and the people will no longer permit any other kind of finance!

No national bank should be authorized to establish a branch, since the purpose now is to encourage the people in each locality to co-operate in doing their own banking, until they reach the condition which entitles them to consideration from a big bank.

No officer or employee of any bank shall receive or accept any reward, favor or consideration of value for granting or denying bank accommodation or for otherwise performing any banking service in his official capacity as an officer of the bank, other than the compensation specifically agreed upon between the bank and the officer. No "rake-offs," no hold-ups; do business on the square.

### ***Equality for All***

Whether formed under national or state laws, banks should have equal rights and privileges, equal duties and responsibilities, equal treatment and consideration.

Unincorporated banks, private bankers, and all similar fiduciary concerns, or individuals who solicit and receive moneys on deposit, should have a lower legal standing than incorporated banks.

Both classes should be subject to the same laws, official inspection and public supervision. Abolish the "twilight zone" between public banking and private banking, for it is that misty haze which covers many abuses and much chicanery.

### ***"Private" Bankers Not Exempt***

No form of private banking should be allowed, meaning by that the conduct of banking functions by individuals or corporations not subject to public supervision. While there are many private banks of long standing and the highest reputation, and while too many failures have occurred even among banks conducted under official oversight, nevertheless every concern in the banking business should be subject to the same rigid inspection, supervision and control that is now exercised over national banks by the federal law, and over state banks by the banking commissioners in those states which have the most perfect system of inspection.

Private banking interests are very powerful, and may strongly resist being placed under state or federal supervision. High-class concerns that are doing a private banking business, object to such inspection on the ground that it is an attack upon their interests and a reflection upon their integrity. The "wild-cat" private banks, and irresponsible and fraudulent people engaged in private banking, oppose this reform for obvious reasons.

The United States supreme court has stated that private banking is a public danger. The private banker may call the institution he operates his bank, yet it is not his but the people's, for it handles the people's property. This reform has been made effective in Kansas and protects the people and the bankers who do business honestly. No valid argument can be advanced against this reform, while every consideration of justice favors it. The private banker who is doing right has nothing to fear from official inspection; those who do fear it evidently are doing that which they should not do.

### ***No Undue Interference***

While subject to the most rigid official supervision, there should be no undue interference with the ordinary business of the bank. New and added functions may be permitted to banks if profitable alike to bank and people, but these new privileges should be granted only on condition that the public as well as the banks are adequately safeguarded.



Each incorporated bank which now exists, and those hereafter established, should be permitted to continue in business uninterruptedly, and without undue interference or unnecessary espionage, so long as they are conducted properly.

Instead of interfering with or restricting the usefulness of existing banks, the methods described herein will enlarge their powers, increase their privileges and enhance their service. But these methods will have a tendency to increase rather than diminish the number of banks, and also may retard the present tendency toward amalgamation of banking institutions.

While strictly subject to rigid laws, all forms of banking require the largest liberty and facility in securing deposits, mobilizing credits, facilitating exchanges. No unnecessary obstacles should be placed in the way of legitimate banking enterprise. It should be encouraged, not discouraged.

Only the individual bank does business with the public—the clearing house, the zone league and the American Reserve Union do business only with, for and between banks.

No unnecessary interference whatever with the banking business, when properly conducted by sound banks with their customers, no uncalled-for red tape or bureaucratism, no artificial restrictions upon the natural laws of trade and exchange, no unwise limitations upon labor or effort, intellect or character!

If a bank undertakes more than one class of business, each class should be conducted as an entirely distinct and separate department. A bank of discount should not employ its savings deposits as it does its commercial deposits, but the savings of the people should constitute a separate department administered in accordance with state and national laws regarding savings banks. Trust funds and trustee banking should not be mixed with commercial banking.

All things being equal, banking should be so conducted as to employ the people's funds for the promotion of their industries and prosperity in the vicinity where the funds originate; especially prevent the undue drainage of money and credits from country to city.

### ***Collection of Checks Free***

No bank shall make any charge for the collection of checks, drafts and exchange. The system of reorganization hereinafter proposed is so complete that the present expense of such collection will be mostly eliminated.

It is a service which each bank will gladly perform for the other, as so to do will be to the interest of each bank and its customers.

The utility, efficiency and economy of the check will be greatly enhanced by the methods and federations suggested.

Petty remittances should be made in the form of self-clearing postal notes, to the convenience of the public, the increase in small transactions between producers and consumers, and the elimination of bother and expense for all concerned.

### ***Precautions in the Public Interest***

It shall be illegal for two or more banks to combine in any way to fix rates of interest, or of discount, or of charges for collections, or in any other way to conspire to prevent fair competition.

The national discount rate may be established only by the representatives of bank users and bank owners, through the American Reserve Union.

In addition to the penalties already imposed by federal and state law for malfeasance in banking offices, let this new proviso be made:

That a bank whose officers violate those newly-to-be-enacted sections of law that aim to prevent illegal combination or regulate unfair competition, if convicted upon fair trial in open court, shall have its charter revoked, and be placed in the hands of a receiver to wind up its business, with due regard to its customers' welfare. One bank thus closed out would be enough—there would not be another case in a long while! This is not sumptuary law; it reaches only those that need it.

### ***Cater to Popular Needs***

More little banks are needed to facilitate thrift and the right use of credit instruments among peoples whose business and resources do not warrant the attention of the great banks. Such self-help is the best help.

But right here, and throughout this work, let it be understood that the co-operative people's bank for savings, loan and discount, also the co-operative land mortgage banks, suggested in the later pages, are based on facts, not theory. My recommendations for them are founded upon results, not merely upon sentiment. It is condition, not theory which confronts us in this matter.

First-class mortgages upon real estate, preferably upon owned farms and homes, should be the basis for bonds of universal popularity, thus mobilizing land credit without seeking to make it support a bond-secured currency.

Likewise the agriculturist's needs for personal credit in the form of seasonal loans must be provided for.

Various other deficiencies in present currency and banking methods, hereinafter set forth, also are to be corrected.

### ***Co-operative Federation***

The foregoing being effectively provided for, banks should be permitted to co-operate to do collectively those things which can be done together better than separately; but such co-operation must be so conducted as to forever prevent a "money trust," and always secure proper representation in banking administration of the interest of borrowers as well as lenders, and of the state and nation as representatives of the entire public.

Co-operative federations will give the smaller banks a fair field, yet without injustice to the larger banks. For in all associations of banks the fundamental principle of co-operation must prevail—one member one vote, or one trustee one vote, and no voting by proxy.



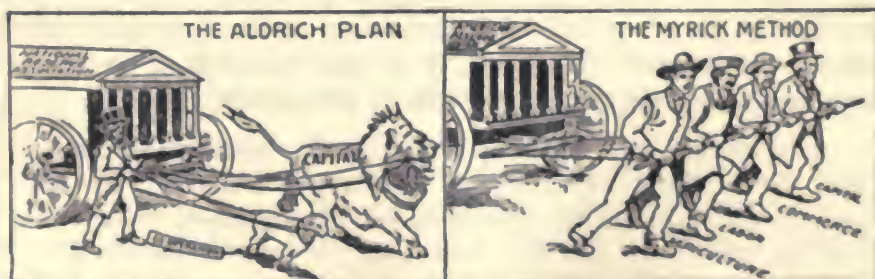
### *Nation's Example to the States*

National banking laws should be so just and perfect that their provisions may be incorporated into the laws of the respective states, thus securing much needed uniformity. For this and other reasons, the present book is confined mainly to banking under national law, but with the distinct understanding that the principles advocated may be enjoyed equally by institutions formed under state laws which adequately provide for them.

### *Aldrich Bill Dead*

A plan to reform the national banking system was reported to Congress, January 8, 1912, by the National Monetary Commission. That report and its accompanying documents are a mine of information, yet in some respects both are singularly deficient. The Aldrich bill is not truly co-operative, does not compel independence between banks, neither incorporates nor regulates clearing houses, fails to fully utilize those remarkably serviceable and well-tried institutions, does not provide for many other pressing needs, and does not sufficiently insure against possible ulterior manipulation. It entirely overlooks the need for popular co-operative banking and land finance.

The few of the really good features in that measure, together with many others whose validity is fully attested by experience, are herein combined into a method that may be so perfected as to accomplish all the good which its advocates claimed for the Aldrich bill, and vastly more, while being free from the manifold objections that have led an intelligent people to reject the proposition of the National Monetary Commission.



NO ONE CAN WONDER AT THE DECEASE OF THE MONETARY COMMISSION'S MEASURE.

# Part Two

## Functions of Banking

### Contents of this Part

#### Chapter VI—Exchange and Banking

|                                                              | PAGE |                                 | PAGE |
|--------------------------------------------------------------|------|---------------------------------|------|
| Science and art of banking                                   | 33   | Supply and demand               | 34   |
| Elementary principles of exchange                            | 33   | Bank's part in exchange         | 35   |
| Value standard, registry for set-offs,<br>medium of exchange | 33   | Deposits, credits, loans        | 36   |
| Organized production and distribution                        | 34   | Usefulness of banking functions | 36   |

#### Chapter VII—How a Bank is Conducted

|                                    | PAGE |                                 | PAGE |
|------------------------------------|------|---------------------------------|------|
| Lending money and credits          | 38   | It is servant, not master       | 42   |
| A homely illustration              | 39   | The bank sells cash and credits | 42   |
| What the bank gets                 | 40   | The borrower is the buyer       | 43   |
| Why its shareholders should profit | 41   | Superiority of banking methods  | 43   |
| The bank's service                 | 41   | The vital point                 | 44   |

#### Chapter VIII—Book Credits vs Credit Currency

|                                                                             | PAGE |                                                               | PAGE |
|-----------------------------------------------------------------------------|------|---------------------------------------------------------------|------|
| Meaning of book credits                                                     | 45   | Characteristics of present issue                              | 49   |
| Use and function of checks                                                  | 46   | Book credits of tenfold importance                            | 50   |
| What is credit currency?                                                    | 46   | Advantages of credit currency                                 | 50   |
| Diametrically different from "money,"<br>but performs most of its functions | 47   | Easy to have it right                                         | 51   |
| Mobile, not inflexible as at present                                        | 48   | No over-expansion or undue contraction<br>should be permitted | 52   |

#### Chapter IX—Defects in American Banking

|                                                                                                    | PAGE |                                                            | PAGE |
|----------------------------------------------------------------------------------------------------|------|------------------------------------------------------------|------|
| Inferior inspection                                                                                | 55   | Protection for savings deposits                            | 59   |
| Ghastly record of failures                                                                         | 55   | Trust and savings funds subject to<br>state law            | 60   |
| Resources and management                                                                           | 57   | Agriculture neglected                                      | 61   |
| The human factor                                                                                   | 57   | Farmers need two forms of credit—<br>mortgage and personal | 61   |
| Character, co-operation, patriotism                                                                | 57   | Many glaring defects in our commer-<br>cial banking system | 63   |
| Departmentized banking; commercial,<br>note-issuing, trust and savings fea-<br>tures kept separate | 57   |                                                            |      |

#### Chapter X—On the Use of Acceptances

|                                                          | PAGE |                                                       | PAGE |
|----------------------------------------------------------|------|-------------------------------------------------------|------|
| Facsimile example of an acceptance                       | 66   | Acceptances in small transactions                     | 71   |
| What is an acceptance                                    | 67   | Short credits on goods in transit                     | 72   |
| The security for it                                      | 68   | Facilitate moving the crops                           | 72   |
| Uniform security for discount rate                       | 69   | Remarkably convenient in many ways<br>for many people | 73   |
| Benefits of acceptances                                  | 70   | Distinction between a note and an ac-<br>ceptance     | 74   |
| They explain European advantage over<br>American banking | 70   |                                                       |      |



#### AS IT HAS BEEN HERETOFORE

Lion Capital, smacking his jaws with brutal satisfaction:  
 "That lamb Co-operation made just one good mouthful. What  
 a juicy bit it was! How fat I get on this kind of food!"



#### AS IT MAY BE HEREAFTER

Lion, very meekly and solicitously: "Now, my dear Lamb, are you quite comfortable? Am I keeping  
 the flies off from you? Is there anything else I can do for you?"



## Chapter VI

**Exchange and Banking***Science and art of banking**Elementary principles of exchange**Value standard, registry for set-offs, medium of exchange,  
organized production and distribution**Supply and demand**Bank's part in exchange**Deposits, credits, loans**Usefulness of banking functions*

Science and Art

**S**CIENCE is knowing, art is doing—theory and practice, why and how. The art of banking is well developed, the science of exchange is as yet but little understood. The ordinary banker who prides himself on “knowing how to run a bank,” may have but slight acquaintance with the philosophy of banking. The customer may know how to use the bank, although he may be quite ignorant of the science of exchange. Some knowledge of the *elementary principles of exchange*, therefore, will aid to a comprehension of the functions of banking.

**Principles of Exchange**

First, there must be a standard for the measurement of values; the present standard is gold.

Secondly, the exchange of values requires a place of registry where one value may be set off against the other value for which it is exchanged; the bank is such a place. It is no longer possible to pay in gold or in other forms of cash the sums involved in the multifarious exchanges of value. Such barter of money for commodities has been supplanted by the modern art of banking, much as the motor-vehicle has superseded the oxcart.

Thirdly, formal documents are also required to express the amount and terms upon which any given value is to be exchanged, and to convey the security for the transaction. These paper instruments constitute the medium of exchange.

### ***Organized Production and Distribution***

A fourth principle of fundamental importance is also involved: Industry and commerce must be so organized that the products of human labor may be in a form that shall facilitate exchange. Then the more perfect the agencies for transporting and distributing the product, the more readily the one can be exchanged for the other, and the more available will be their exchangeable value.



Making Money Work

Iron, wheat, gold, or any other commodity on a desert island inaccessible to the world, possesses no available value, because they cannot be exchanged for other articles of value. To set up a modern bank on such an island, equipped with every convenience for exchange of values, would not help the situation.

The iron, gold and wheat would still be valueless because still inert, inactive, not exchangeable, not in demand. But make these resources accessible to the world, let people know that iron, gold and wheat can be obtained more readily from this supply than from any other source, and the demand at once creates a value for that which previously was inactive and dead. Forthwith the island is populated, its miners and farmers exchange their products for manufactures, and the bank forms a most useful agent in effecting these exchanges.

### ***Supply and Demand***

Supply and demand regulate values, though artificial regulations may interfere with the operation of this natural law. It

is as immutable as the tides, resistless as the sun! No man can say exactly the point at which demand begins or ends, or where supply ends or begins in its relation thereto. Like other natural forces, supply and demand tend toward equilibrium, but cannot maintain it: ever the contention of positive and negative forces—evolution!

But supply can be adapted to demand. The gulf between producer and consumer may be bridged; it can never be filled. Organized association of effort in production, transportation and distribution, will help promote the more harmonious operation of the natural laws controlling supply and demand, but those laws will endure. Man's stint is to *get into gear* with Nature, and keep in gear so as not to be ground to powder between the gears!

Right here exchange plays an important part. The more perfect the mechanism of exchange—which has been briefly described above—the more readily may demand adapt itself to supply, or vice versa.



SUPPLY AND DEMAND

The ocean of supply rolls upon the shores of demand, and no king's order or man's barrier can stay the rise and fall of the tide.

### ***The Bank's Part in Exchange***

In the mechanism of exchange, the bank is an important factor, an integral part, an indispensable cog in the gearing of the machinery of trade. But in, by and of itself, the bank creates no demand, creates no supply, creates no value; it is simply the agency through which exchanges are effected and recorded.

For, while a bank may have large resources, it may possess but a relatively small amount of gold or of cash in other form; aside from this reserve in cash, its resources are invested in loans to its customers or in bonds, stocks and other securities, and its profits arise mainly from the income it receives for its services in making such loans and in otherwise facilitating the exchanges in which its customers are engaged.



***Deposits, Credits, Loans***

5. In addition to its own capital, the bank receives deposits of money and of credit instruments which otherwise might be idle. The savings and capital of the people, whether small or large, can thus be put to useful purpose. Instead of remaining unproductive in their homes, or wherever money may be stored when not in use, the people bring it to the bank, and the bank

lends it to those who can make good use of it, preferably for production or distribution—exchange, rather than for mere speculation.

6. Equally important, if not even more so, is the power of the bank to lend its own credit, as described in the next chapter.

Especially if loans are made to individuals or corporations in the neighborhood of the bank, then the otherwise unproductive capital and credits are now employed in their midst and to the general advantage of all the people. Only

when money or credits are busy are they thus productive, or dynamic; otherwise, they are idle or static.

7. The bank may also afford a safe deposit for the valuables of its customers. It may serve them in various fiduciary capacities, including the purchase or sale for customers of investment securities, and advice on financial matters.



THE PEOPLE'S CO-OPERATIVE BANK  
Owned by the people, is of, by and for them,  
whether on farm, in factory, store or office.

***Usefulness of Banking Functions***

Thus the bank is an agency through which the people co-operate to secure the wise use of their funds, to promote exchanges of values, to foster the distribution of commodities and acts as a financial center for its patrons.

In these ways the modern bank is becoming more and more indispensable and helpful. The better it serves its clients, the greater their number, the larger their deposits and borrowings,

then the larger are the profits of the bank—either for its shareholders, if run for private profit, or for distribution among its patrons, if operated on the co-operative plan.

These principles, upon which are founded the science of banking, prove the indispensable convenience of these institutions. Their usefulness is so great, their operations can be so improved and enlarged for the public welfare, that every reasonable effort should be made to increase the number and efficiency of banks, especially in a form whereby the masses may benefit.



Before organizing: Many different lots of varying quality in different shipments by different railroads to different middlemen; big expense, small returns to producers, though consumers pay high prices. This is one reason for the high cost of living.

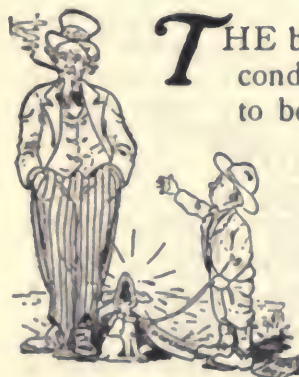


After organizing: The stuff is classified into grades of uniform quality, forwarded in one shipment by trainload on one railroad, sold at auction on the market; little expense, big returns to producers, less price to consumers.

SO ORGANIZED THAT PRODUCTS MAY BE IN A FORM TO FACILITATE EXCHANGE.

*Chapter VII**How a Bank Is Conducted*

*Lending money and credits  
 A homely illustration  
 What the bank gets  
 Why its shareholders should profit  
 The bank's service  
 It is servant, not master  
 The bank sells cash and credits  
 The borrower is the buyer  
 Superiority of banking methods  
 The vital point*



"Aw, get off'n his tail, Uncle Sam!"

**T**HE business of the ordinary commercial bank is conducted in quite a simple manner. It loans to borrowers the funds it receives from depositors or from its own capital, and also loans its credit. It pays as little interest as possible to secure the deposits it lends, and obtains as good rates as may be upon the loans it makes. If the bank's expenses are kept down and losses avoided, satisfactory profits are secured. The average dividend upon the actual capital invested in national banks is now about 10 per cent annually, after paying its losses and adding something to its reserves. In some instances, profits have been so large as to permit of stock dividends, generous or even extravagant in size.

These profits could not be secured by loaning merely the capital, surplus and deposits of the bank. Its earnings, as well as its usefulness, depend largely upon the extent to which the bank may lend its credit, with safety to all concerned. A homely illustration will make plain this fact.



### *A Homely Illustration*

Let us suppose that John Doe is a man of character, of good judgment and of reputation for paying his bills. He may be possessed of property in lands, merchandise and other forms of wealth, but his available cash may be limited to \$1,000, which is to his credit at the bank. As he resides in a cotton-growing region, and market prospects for that staple look good to him, he decides to buy \$10,000 worth of cotton for re-sale to domestic or foreign manufacturers. He arranges with the local bank for a loan of \$10,000 on his note, and as security for this loan he gives the warehouse receipts for the cotton as fast as he buys it. The bank does not give him \$10,000 in cash, but it credits his account with \$10,000, so that he may check against that sum.



A Homely Illustration

Suppose Mr. Doe buys \$1,000 worth of cotton from Mr. A, and a like amount from B, C, D, E, F, G, H, I, J, respectively. Each of these ten planters delivers the cotton at the warehouse, and receives from Mr. Doe a check for \$1,000, which they forthwith deposit in the same bank. The result is that of the \$10,000 which was credited to Mr. Doe, \$1,000 of it is now transferred (on the bank's ledger) to each of the ten depositors; that is, Mr. Doe's account is charged with the \$1,000 which is credited to Mr. A's account, and so on.

Now assume that Mr. A owes \$50 each to ten different individuals in the vicinity. He proceeds to pay each of these creditors by sending them his check for that amount, whereupon his debts are all paid and he has a balance of \$500 to his credit in the bank. Assume that each of the other nine planters do likewise; thus debts are paid off to the amount of \$5,000 by the ten planters, and they will have left a like amount in bank. Ere four months have elapsed, Mr. Doe has sold the cotton at a nice profit, has paid his note, and added his profit to his balance at the bank.

Observe that throughout all these transactions, not a dollar has been used of currency or of cash in any form. No actual

money has changed hands. The bank simply loaned its credit, for which it was paid in advance at the rate of six per cent interest per annum. Furthermore, the fifty checks that were issued to pay off sundry debts, were also deposited in the bank to the



The cotton buyer's credit is good at the bank, he pays Messrs. A, B, C, D, E, etc., by check, they deposit their checks right back in the bank, and proceed to pay their debts by check. Everybody liquidates, but no cash used.

credit of the payees, who likewise check against same in settlement of their accounts with others. It may be that in this way several hundred different debts will be wiped out that aggregate several thousand dollars, yet not a dollar of actual money will change hands, while each of the ten planters may have a snug balance left to their credit for the future.

All concerned have profited by these operations—the bank, the dealer, the planters and their creditors. The expense involved has been almost infinitesimal, the risk is avoided of having to keep or handle cash, and there has been no drain upon the supply of cash or currency, either within or without the locality.

### *What the Bank Gets*

Now what has the bank done and what has it received for its services? For the loan of \$10,000 for four months at six per cent it receives \$200. Against this loan the federal law obliges the national bank to set aside a reserve in lawful money equal to 15 per cent, or \$1,500; therefore, the bank loses the full interest on this \$1,500, which at the same rate amounts to \$30 for the four months, but this loss is reduced to \$20 if the bank gets two per cent on its reserve by depositing the \$1,500 in a central reserve bank.

Therefore, the amount received by the bank for the service or "accommodation" extended to Mr. Doe is \$180. Out of this the bank has to pay all its expenses of operation, including losses, should set aside something to add to its reserve, and the balance

of free net profit remaining will be available for dividends upon the capital stock of the bank. Since its shares are usually held among the people in the locality, or should be so owned, its profits accordingly are divided among the local public.

If any bank makes abnormal profits from its legitimate business, another bank is quite certain to be established to compete with it. Thus rates for money are kept down to a competitive basis, if our system of free banking operates properly.

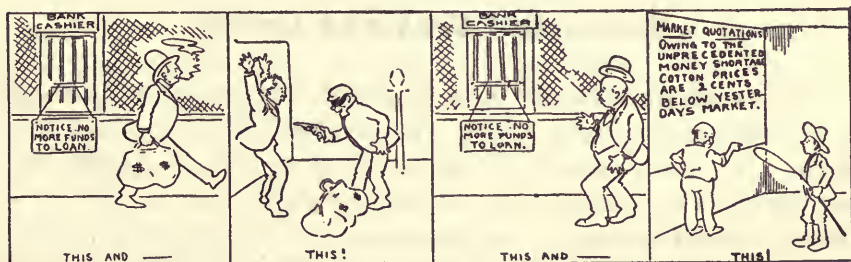
### ***Shareholders Entitled to Profit***

And what have the shareholders done to entitle them to the 8 or 10 per cent dividends usually paid by national banks? Each \$100 par value of capital stock is the bank's first and paid up reserve. In case of liquidation, every depositor and other creditor of the bank must be paid in full before the shareholders get any part of the assets.

If the assets are not sufficient to pay the debts, then each share of national bank stock may be assessed another \$100, or so much thereof as may be necessary to pay the creditors in full. For assuming such an obligation, the shareholder in a national bank is justly entitled to a reasonable dividend, but not excessive compensation. How serious this obligation may become appears from the failures among national banks that have assessed shareholders \$20,000,000 over and above the loss of their original investment.

### ***The Bank's Service***

Through the agency of the bank, the produce of farm and factory is transformed into gold, or into money, credit currency,



POSSIBLE RESULTS OF DRAINING CASH AWAY FROM BANKS.



bank credits, or credit instruments, all as good as gold. In a word, the bank temporarily coins the equivalent of gold out of the produce as it passes from the producer to the middleman on its way to the consumer. This equivalent is either (a) in cash, or (b) in the form of temporary credit instruments, which latter should go out of existence the moment their function is performed.

This is a great service, and for it the servant, which is the bank, receives under a proper system only what is a reasonable compensation, the net profits of which are divided among the shareholders who back up the bank. Under a righteous method, therefore, producers say to the bank, which is their servant:

“We require you to loan us your cash or your credit in effecting our exchanges; every dollar of cash or credit thus extended you must keep as good as gold; you must let us have our money whenever we want it; you must assume the risk of loss in case the borrower fails to pay; you must do all the accounting and other work incidental to our banking business; and for this we are willing to pay you a reasonable compensation.”

To meet these demands, in case the bank itself has not sufficient funds on hand at any particular time, then it should be able readily to issue its own notes to a limited and temporary extent, or to borrow on its assets, or to rediscount the notes of its customers, thus securing additional funds to tide over the emergency. Yet this must be so done as to avoid the error of seeking to make assets out of liabilities. Not even a bank can lift itself by its bootstraps!

### ***Banks Sell Cash and Credits***

Whereas the farmer sells produce, the manufacturer sells goods, the worker sells labor, but the bank sells its cash or its credit. The bank must sell its credit or money, or it can make no profit. The bank must collect the sums due it, just as the farmer, manufacturer or laborer must collect for their produce, goods or labor. All four of these interests have bad debts occa-

sionally, and the principle of business is to have few losses, so that profits may not be reduced thereby.

The vital difference between the bank and the individual is, that the bank does business almost entirely on borrowed capital—in the proportion of about \$1 of its own money to \$10 of its depositors' or its credits; whereas with the farmer, manufacturer or laborer, the reverse is true—they usually use \$5 to \$8 of their own money for each \$1 of their debts. Another difference is that the bank's borrowed funds (deposits and credits) are in danger of being called for any minute, whereas the business man's obligations are usually for a fixed period.

The buyer is a buyer, whether he wants money or credits in the form of a loan, or wants produce, goods or labor. The producer is a seller, be he banker, farmer, manufacturer or laborer. Neither of the four can sell if they haven't the stuff to sell, or can't get it; nor will they sell, if they think they won't get their pay.



Bank Is Servant, Not Master

### ***Superiority of Banking Methods***

How much superior is the method of our homely illustration to the common plan of draining cash away from either home or foreign banks, in order to pay for the cotton, only to have the cash eventually get back into the banks! Meanwhile, such demand for cash to move the crops has stiffened the money market, advanced rates of discount and made it difficult for cotton buyers to get credit cheaply. These conditions have caused a hesitating tendency in all business, merchants and manufacturers are forced to be more conservative, prices sag off, and dealers take advantage of the situation to "bear" the price to the farmer of the additional cotton or other produce they require.

All these unfavorable influences are done away with when bank credits expand automatically to meet the demands of the season, and then as automatically contract after those extraordinary demands have gone by.

### *The Vital Point*

It is more convenient for all concerned that Mr. Doe should pay for his purchases of cotton by means of checks against his book credit at the bank, but the same transactions may be effected with money or bank notes.

The vital point is not the particular form of the instrumentality wherewith the bank's credit has expanded to meet the situation, but the vital point is that the credit was granted, the accommodation was extended at the time it was needed, and the various instruments used for transferring these credits *went out of existence as soon as their purpose was fulfilled*.

This is a perfect illustration of a form of credit expansion and contraction which is greatly needed at least twice each year. The wise use of the same principle, in times of stringency and threatened panic, will usually avert serious financial trouble.

## CO-OPERATION



*"United to assist, not combined to injure"*



## Chapter VIII

# Book Credits vs Credit Currency

*Meaning of book credits*

*Use and function of checks*

*What is credit currency?*

*Diametrically different from "money," but performs most of its functions*

*Mobile, not inflexible as at present*

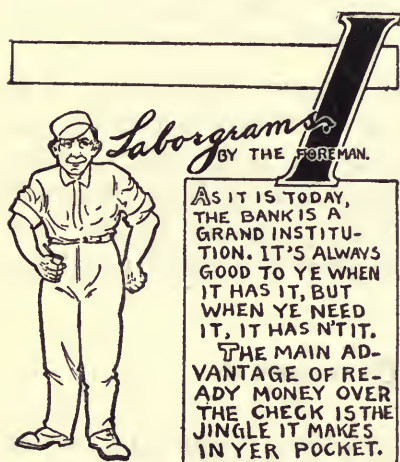
*Characteristics of present issue*

*Book credits of tenfold importance*

*Advantages of credit currency*

*Easy to have it right*

*No over-expansion or undue contraction*



IT IS apparent from the preceding chapter that proper conveniences for the wise and safe expansion and contraction of bank credits are more important than any other phase of the monetary problem, other than the standard of values itself. Of course, it is imperative that banks should have an adequate reserve of government money to meet extraordinary demands upon them, also that all money and instruments of credit should be as good as gold.

Hence, the need of co-operation between banks to protect their reserve, and to consolidate the stock of gold so that it may be most wisely employed wherever and whenever needed. But these relations of book credits to credit currency call for further elucidation.

## Meaning of Book Credit

The placing by the bank of a credit upon a customer's account, against which he may check, is what is called a "book

credit." This form of credit is the one so universally employed in America.

More than 90 per cent of our infinitely numerous business transactions, outside of retail trade, are probably settled with checks. Their convenience and economy were simply expressed in the homely illustration previously cited. Their use and function are destined for still greater efficiency.

Of course, the book credit may be created either by (a) an advance of the bank's own credit, as cited on page 39, or by (b) deposits by oneself in the bank to one's own credit of money—coin or government money, currency or credit instruments. So long as your credit on the ledger of the bank is not exhausted, you may check against it, your check will be good, and will be accepted as valid for its face value by all who know it is good. Its function is completed within a few days, when it flows into the bank for payment (redemption), and is then charged to your account, reducing by a like sum the balance to your credit.

Checks or drafts are simply instruments for the transfer of credit. They are not currency in any ordinary acceptance of that term, neither are they lawful money nor legal tender. They are immeasurably convenient, no obstacle should be placed in the way of their use, but every facility should be afforded whereby all the people may enjoy the great convenience of these and other credit instruments.

### ***What Is Credit Currency?***

Now, in the illustration already given (page 39) instead of placing \$10,000 to Mr. Doe's credit on its books, if the bank had given Mr. Doe ten cashiers' checks upon itself for \$1,000 each, for him to use in paying the ten planters, the same result would have been accomplished.

Or had these ten cashiers' checks been in the form of bank notes issued by the bank itself, in lieu of its checks, the result would have been the same, provided these notes are merely credit currency to be redeemed within a few days as soon as its function is completed, just like a check.

A bank note should be in effect a cashier's check made payable to bearer, so that temporarily it may pass current without the indorsement required on a check, as set out in Chapter IV. Charles N. Fowler's generic definition:

"A bank note is essentially the same in principle as a deposit payable on demand. It is a book deposit converted into such form that it passes current. It resembles in character a demand certificate of deposit or cashier's check—simply a current deposit liability of the bank."

### ***Not "Money"***

The definition quoted is partly right, partly wrong. A little change in its wording will make it right, but involves a big change in principle. I think it is more nearly correct to say:

In a pure credit currency the bank note is a book-deposit liability converted into such form that temporarily it passes current. It resembles in character a cashier's check. It is different from other deposits in that they represent labor, effort or commodities to the value expressed, while credit currency is usually 85 per cent fiat, being backed by only 15 per cent reserve in the forms usually taken by such other deposits.

It will be seen that the difference between the two definitions is fundamental. The former aims to make "money" out of 85 per cent pure credit, the latter avoids this error.

If the bank issues its bank notes (credit currency) instead of cashiers' checks, these notes may not be regarded as permanent cash, like government money—paper or gold, but their nature should be such that speedily they will flow back to the bank to be redeemed by it, just as its cashiers' checks will come back for redemption.

Credit currency should not presume to be lawful money nor legal tender. Though it be obligatory upon any national bank to receive at par the notes of any other bank, because all



are kept as good as gold, such credit currency may not be counted in reserves, any more than may cashiers' checks or other credit instruments. The only safe way to create "asset money" is to have assets as good as gold!

Circulating credit is an order for the payment of money, whatever may be the nature of the instrument whereby the credit circulates. Therefore, credit currency, to quote W. H. Berry, "differs diametrically from money in that it does not require the sacrifice of an equivalent in value in order that it may come into existence." Even the two per cent tax Fowler imposes upon credit currency to make it cost the bank the same as other deposits upon which two per cent is paid, does not compensate for this fundamental difference. Such tax simply makes this paper 83 per cent fiat instead of 85!

Yet, important as is this distinction, nevertheless it does not materially interfere with the specific functions or usefulness of the pure credit currency herein advocated. The full significance of this distinction appears in Chapter VII. Of course, law and custom must rigidly supervise the issue of credit currency, so as to prevent the dangers of inflation and nip in the bud over-expansion, while affording accommodation during legitimate emergencies and thus guard against undue contraction.

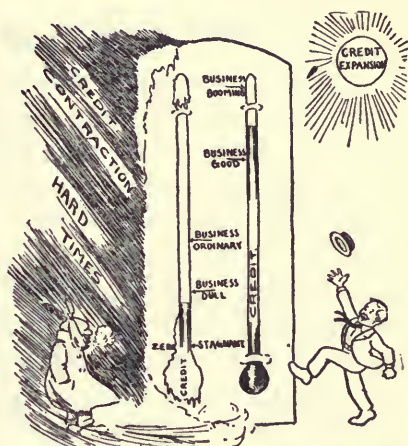
### ***Mobile, Not Inflexible***

One trouble in the United States has been that national bank notes violated the foregoing principle. They are fixed in volume and incapable of automatic expansion or contraction, because secured by government bonds which are permanent in amount. While not legal tender, they possess many of the functions of money, because national banks are required by law to receive at par the notes of other national banks. There would be *no change in these respects in the credit currency proposed.*

By transforming national bank notes into a pure credit currency, the supply would adapt itself to demand, while over-expansion would be prevented by prompt redemption, as is the case with checks. This is the nature of the Canadian bank note, whose life averages 30 days, while the Scotch bank note averages

to be out only 18 days. In the United States, the credit currency bank note would probably be out an average of about 30 days, the variation in its life being controlled by the amount temporarily carried in tills and pockets.

The people of Canada and of Scotland evidently use checks to a vastly greater extent than they call for credit currency, since their deposits subject to check are some tenfold the amount of the credit currency outstanding. The English employ checks almost as freely as we do. In France and Germany, on the contrary, credit notes or cash are used to a relatively larger extent, the people of France having in the Bank of France only about one-eighth the amount of deposits subject to check that they hold of the bank's credit currency, showing that they prefer and use current credit instead of book credit subject to check. In the United States net individual deposits in national banks are ten times the outstanding bank notes.



Naturally automatic contraction and expansion

### ***Present Issue of Bank Notes***

The United States bond-secured notes of national banks now in use are virtually a prior and underlying lien upon all the resources of the issuing bank. The two per cent bonds, without circulation privilege, if thrown on the market would sell at about 80. The other 20 points would have to be made good by the bank out of its other resources, in order for it to redeem its notes at par.

The present form is therefore credit currency in part, but is deprived of one of the latter's chief characteristics in being *fixed* instead of *mobile*—it cannot now expand when needed, and yet contract when not in use! Now suppose the bank could either keep its bonds or sell them at par, and issue its credit notes



as called for by its trade (within safe and prescribed limits), such credit currency would then possess exactly the same security as backs the present form, with the extra advantage of mobility. Even if the bank sells its bonds, it receives in money their full par value, so that the security for its notes is not impaired.

### ***Book Credits of Tenfold Importance***

Subject to the distinctions above noted, one may almost agree that it is "immaterial whether the obligations of a bank are in the form of deposits subject to check or of credit currency, providing the reserves are ample and the same amount [and quality] is required for the protection of each. With the same freedom on the part of the bank to issue its credit notes that it has to accept deposits subject to check—[that is, being obliged by law to pay a tax of two per cent on its notes, so as to put their use on a par with its deposits-subject-to-check upon which the bank usually pays two per cent interest]—the habits of a people will determine whether the deposits of a bank or its credit notes are the larger." As a matter of fact, deposits doubtless will continue to average nearly tenfold the volume of national bank currency, and at times deposits even will be relatively larger.

Here again is evidence of the truth that instruments based upon book credits are fully ten times more important than bank currency. Further attestation of this truth is the business of the thousands of state banks that have no currency circulation whatever!

### ***Advantages of Credit Currency***

The advantages claimed for credit currency by Fowler are:

1. It will lower and equalize the rates of interest throughout the United States.
2. It will make the rates practically uniform throughout the year.
3. It will give to the country districts as economical a form of credit as the cities enjoy where checks are chiefly used.
4. It will give to the mass of the people, who use currency in their smaller purchases, as



economical a form of credit as those enjoy who use checks in their larger transactions.

5. It will make it possible for the banks generally to serve such of their customers as may want currency without disturbing their reserves, to the great injury of other customers who have loans which must be paid before the currency can be advanced; for it is immaterial to a bank whether it owes a depositor or a noteholder.
6. It will almost invariably prevent any panic whatever, and will always avert a ruinous crisis.
7. If at any time contraction of credits becomes necessary because too much of the commercial fund has been diverted and transformed into the investment fund, a credit currency will facilitate liquidation without that destruction of values incident to a fixed quantity of currency such as we now have.

### ***Easy to Have It Right***

The evolution from national-bond-secured currency into credit currency would be comparatively simple. The existing plates from which national bank notes are now printed, would be amended by striking out the words "secured by government bonds and other securities," and printing thereon boldly in red the number of the zone in which the issuing bank is located, also its own number in its district. Every bank would have to redeem its own notes—its credit currency—in cash over its own counter, through its own clearing house, or through the zone league or its correspondent at its redemption city. This redemption would have to be in gold or its equivalent, and thus every dollar of credit currency while it is outstanding would be as good as gold.



Easy when you know how!

Naturally, however, credit currency would not circulate very far from the bank of issue, because the individual or the bank receiving same would deal with it as they do with a check or draft, instead of treating it as money.

Thus the patrons of banks could obtain their loans in the form of a book credit against which they could check, or as cashiers' checks, or as drafts upon other cities, or as credit currency. For the brief time the latter is outstanding it performs all the functions of money or cash, "in its very essence is a current credit of the banks, never too great in quantity, never too small, but always just equal to the requirements of trade, and always adequate to any demand for money," because redeemable at any minute in gold.

### ***Neither Over-Expansion Nor Undue Contraction***

While over-expansion is guarded against as above described, the danger of contracting the currency is also insured against. For since it will cost the bank no more to loan its credit than to loan its deposits, and really less, and since the bank is in business to make money, it will loan its credit as well as its deposits so far as it can safely do so, up to the limit of its reserves as prescribed by law.

Self-interest, as well as the public scrutiny to which the banks are subject, under the proposed system, and the fact that the control of the American Reserve Union and of its branches is vested in representatives of customers and of the federal government as well as of the banks, will insure against the evils of contracting unduly the issue of credit currency.

The smaller banks will then be relatively as independent as the bigger banks, and both will draw upon the American Reserve Union for gold or for rediscounts, so that neither the little nor the big banks will be obligated to any one banking institution more than another.

Should any bank willfully or impudently or arbitrarily contract its credits, its customers immediately would be grabbed up by other banks, its action would be censured by its associates in the clearing house, in the zone league and in the American

Reserve Union, and it would be "hoist with its own petard." Or, if any group of banks attempted contraction of credits, the situation instantly would be relieved by rediscounts through the zone league of the American Reserve Union.

### ***No Change in National Bank Currency***

is required, so far as its appearance, function or use by the public are concerned. The only change needed is in the law, and in banking practice. The resulting difference may be briefly compared in this way:

#### ***Bond Currency***

1. Secured by (a) bonds now salable at 80 cents on the dollar, and in effect (b) a first lien on all other assets of the bank.
2. Ties up in bonds cash equal to notes outstanding.
3. Fixed, immobile, inflexible, irrespective of the needs of business.
4. Slowly presented for redemption because circulating as money instead of as checks.
5. Pregnant with trouble, panics, failures.
6. Is not legal tender, but circulates as "money," and even takes the place of gold in central reserves, thus weakening the basis of all credit.
7. Has caused a record of financial disaster and bank failures unparalleled in history.
8. An utter failure in spite of all precautions.

#### ***Credit Currency***

1. Being a first lien upon both bonds and all other assets, it is equally well secured. This truth is beyond cavil.
2. This cash is released to loan to productive industry.
3. Automatically expands or contracts in response to trade requirements.
4. Redeemed quickly each day as presented, just as checks are met, being a substitute for checks rather than for money.
5. Pregnant with benefits, prosperity, success.
6. Is not legal tender, is not accepted by banks in lieu of gold, cannot deplete the gold reserve, cannot weaken the basis of credit.
7. Wherever employed — France, Germany, Scotland, Canada—has prevented bank failures and promoted financial health.
8. A complete success, when properly safeguarded.

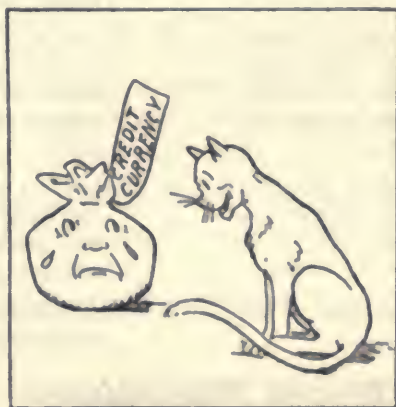
### ***Beyond Manipulation***

Indeed, no two or more persons, banks, corporations or associations may conspire to expand or to contract credits,



"accommodation," or interest rates. Under my method those matters may be left to automatically regulate themselves through the operation of the natural laws of supply and demand. The limit to the demand for credits will be the extent to which labor and capital may be so employed as to net a profit. The supply of credits cannot be manipulated because it is fed by each one of our almost 30,000 banks, each of which is a separate entity, independent of all other banks. The co-operative federation proposed, administered by equal representation of bank users and bank owners, with federal trustees holding the balance of power, supplies the needed agency through which the gold reserves may be mobilized for instant use as needed. Thus my financial method becomes impregnable, because it makes safe both business and banking.

It must ever be kept in mind that the zone league, as well as the reserve union, by my method, is controlled as much by banking customers as by banking owners, while the federal government itself has controlling voice in the American Reserve Union. Thus the interests of the people are insured, and credit currency becomes desirable. All this is directly opposite to the monopolistic control of the entire banking and currency system which seems to have been involved in the Aldrich bill.



Unlike the cat with her nine lives, credit currency like the check, has but a brief existence.

*Chapter IX*

*Defects in American Banking*

*Inferior inspection  
Ghastly record of failures  
Resources and management  
The human factor  
Character, co-operation, patriotism  
Departmentized banking; commercial, note-issuing, trust and  
savings features kept separate  
Protection for savings deposits  
Trust and savings funds subject to state law  
Agriculture neglected  
Farmers need two forms of credit, mortgage and personal  
Many glaring defects in our commercial banking system*

**I**NSTITUTIONS which perform the important credit function, that have the custody and use of the people's funds, and that are the custodians of their other valuables, should be under the strictest supervision of state officials or of the national government.

The deficiencies in our inspection account in part for the relative frequency of bank failures in the United States, whereas bankruptcy is comparatively unknown among the banks of Great Britain and Europe. Since adequate inspection is provided for in the organization hereinafter proposed, it is needless here to further emphasize its importance.

*Ghastly Record of Failures*

The harvest of death among American banks is disgraceful beyond all parallel. Their failures are too common and too serious, and too many instances have been due to dishonesty rather than to misfortune or inefficiency. The record of bank failures throws a ghastly light upon the necessity for banking reform.

National bank failures from 1865 to 1909 inclusive involved capital, surplus and other liabilities to the enormous aggregate of some 350 millions of dollars, of which total only 120 millions were made good.

Incomplete data for state banks and private banks for the like period show failures for 660 millions.

Here is the stupendous total of about 1,000 millions of dollars as the liabilities of failed banks since the civil war! Equal to the aggregate paid-in capital stock of all solvent national banks now doing business in the United States!

The assets of the failed banks appear to have paid a far higher percentage of the debts of national banks than of state and private banks. The latter class as a whole paid out only 45 cents on the dollar of their debts, over a long series of years. Failed national banks whose receiverships have been completed have netted their creditors an average of 76 cents on the dollar from 1865 to 1910. In order to net their creditors 45 to 76 cents on the dollar, the stockholders of these banks lost all their capital, and in the nationals were assessed 20 millions besides! Many small private banks have failed, data for which are not included in the statistics. The facts quoted understate the truth.<sup>4</sup>

During the twenty years ended with 1909, "eighty-eight banks have failed every year on an average, or more than seven banks every month, and one bank about every four days."<sup>5</sup>

No wonder the more progressive bankers now seek a system of self-inspection that shall be perfect. No wonder the public demands an official system "of supervision and administration that will prevent dishonest men from robbing banks and foolish men from running banks, and a system of bank credits and bank reserve that will absolutely protect every bank that avails itself of the privileges of such reserves."





### ***Resources and Management***

The bank's capital and surplus over and above all obligations, are what insure the depositors that they can get back their deposit when wanted. Only after this is provided for may profits be divided among shareholders.

Yet we have seen that when state banks fail they are not able to pay a mean fifty cents on the dollar, while failed national banks make a better showing partly because of the double liability of their shareholders.

The difference between success and failure, in banking as in everything else, is due more to differences in management and judgment than to lack of capital. It is easy enough when you know how. The human factor is the vital factor!

Obviously, this banking is a quasi-public business, for it affects every branch of industry, and is vitally connected with the interests of employed and employer, producer and consumer.

Hence, also, the obligation upon the bank to wisely and safely employ its resources in promoting industry and prosperity among the people of its own bailiwick, yet not to the extent of jeopardizing its resources.

Hence, too, the need of co-operation between banks for mutual support in times of stress. And finally we see that much more is required than official supervision and ultimate public control. The interest of each individual bank-shareholder and customer, director and officer, employee and helper, is demanded. No system of laws or oversight can take the place of character, co-operation and patriotism in a right banking system.

### ***Departmentized Banking***

The federal law intended that national banks should confine themselves to what is called commercial banking. Of late years, however, many of them have instituted savings departments, upon the theory that what the law does not forbid is authorized.<sup>6</sup> Equality of opportunity between national and state institutions in the matter of trust company business also has

been suggested. Such equality may be legalized, but only provided equal opportunity is accompanied by equal responsibility, not otherwise under any circumstances whatsoever.

It is proposed that any national bank having \$25,000 capital or more may be permitted to issue its credit currency, and that such banks having \$50,000 capital or more may conduct the functions of a trust company, also that all national banks may institute savings departments. Such authority can be granted only under provisions strictly requiring the entire separation of these three functions from each other and from the regular commercial business of the bank. Departmentized banking may justly be instituted upon:

1. The commercial department of a national bank should be strictly confined to what is meant by a regular banking busi-



SEPARATE LIKE THIS—

NOT THIS WAY

ness, receiving moneys on current account, making current loans, discounting commercial paper, etc.

2. The note-issuing function of a national bank must be kept absolutely distinct from its other business. It constitutes a separate department, for purposes of safety, administration, inspection and taxation. Even with equal responsibility and oversight, the national bank will still possess one advantage over the state institution, in that only the "national" may issue its own credit currency. But since that form of temporary deposit liability is to cost the bank in taxes practically as much as the interest it pays on current deposits of actual cash, the advantage to the national is more apparent than real. Certainly the federal government can never permit state banks, which are not under its entire control, to have the note-issuing function.

3. All trust company business, such as trusteeship, the execution of wills and similar fiduciary trusts, if undertaken by a national bank, must be conducted in accordance with state laws and under state inspection.

### ***Protection to Savings Deposits***

4. The savings department should be confined wholly to the receipt of the people's savings deposits, and the investment, care and repayment thereof.

The savings department of any national bank should be conducted in accordance with the laws of the state in which it is located, concerning savings banks, savings deposits and savings funds. It is not right to permit nationals longer to conduct savings departments independent of the laws of their states.

It is not right that the people's savings deposited in nationals, or in state commercial banks, should be used in such bank's commercial business and thus be subjected to all the risks of daily trade. Pennsylvania, New York and the New England states have developed a great system of mutual savings banks, as a result of over 100 years' experience; their methods and laws should be applied in each of the other states, and all national banks conducting savings departments should operate the same in harmony therewith.

The vital importance of this reform, in both national and state banking, is emphasized by this great fact: of the more than four billion of savings deposits in the United States, only three-fourths are in states—New England, New York, New Jersey, and Pennsylvania—under sufficiently strict legal requirements, while the remaining more than one billion of the people's savings “are in the capitalized savings banks, state, national, and private banks, and trust companies of the other states, most of which have invested these savings funds under no legal restrictions whatever.”

Still worse, as Pierre Jay points out, these savings deposits in these other states, “are not secured creditors, nor even preferred creditors. As a matter of fact, they may actually become,



at the option of the bank, deferred claimants. Such banks may enforce the ninety-day clause against the withdrawal of savings deposits, meanwhile permit their other deposits to be withdrawn, and thus oblige the bank to dispose of or borrow upon its liquid assets in order to meet the demands of its commercial depositors, and have nothing left for the savings depositors but the unrealizable assets."

There can be no disputing the imperative need of providing state and federal laws, and such co-operation between state and

nation in their enforcement, that the savings depositor may "know that in every authorized place of deposit, his savings are subject to exactly the same protection, and are invested in exactly the same manner, which nearly a century of experience has shown to be peculiarly wise and secure."



Banking Not a Private Snag.

For savings investments, by either the state or national banks, there can be nothing better than the land bonds here-

inafter provided for. They will also afford one of the best of all investments for savings funds in postal banks. The foregoing considerations are imperative, otherwise millions upon millions of savings will drift into commercial business and into speculation which should be invested in land bonds or mortgages.

Reform can be accomplished in a very simple way. Each state should adopt the savings bank requirements of New York or Massachusetts, and the same should be embodied in the federal banking act. This reform, to further quote Pierre Jay, "works along the line of least resistance, does not drive any existing bank out of business, does not disturb their commercial business, and still permits them to make a profit out of the handling of savings deposits," while at the same time absolutely protecting savings depositors.

In the event of the failure of a national or state bank having a savings department, should the assets in said department fail to pay the savings depositors in full, the balance due them should constitute a relatively preferred claim against the remaining assets of the bank.

### ***Agriculture Neglected***

The American fiscal system, and our lack of system in banking, also have operated to the detriment of our fundamental industry—agriculture. In America, agriculture is the basis of wealth. Agricultural credit is the basic credit. Intrinsically speaking, the farmer's credit is the best credit, but because of his lack of organization, it is often a slow form of credit.

While the farmer's accommodation should be among the first objects in banking, too often it has been the last. Because other forms of credit have been more attractive, more available, and more profitable to commercial bankers, the discrimination against farmers has been persistent, insidious, increasing, until it has become well nigh a subconscious habit, at least in some places. Some country banks have become feeders of metropolitan speculation rather than fertilizers of rural needs.



Agriculture Neglected

The usual excuse is the correct one, that the system is wrong, and that no one bank can correct prevailing conditions.

### ***The Farmer's Need for Credit***

1. The farmer may require a permanent loan for a long term of years, secured by a mortgage upon his farm. If he can



get such money at reasonable rates of interest and easy terms of repayment, he will use the capital for permanent improvements that will pay a fair profit upon their cost.

2. But even if a farmer has his place paid for, or has bought or improved it on mortgage, he usually needs working capital in order to buy his supplies in the spring, or the cattle he wishes to feed for market, or the other manifold needs of agriculture. Provided with such "accommodation" at reasonable rates, and given eight to sixteen months in which to pay it instead of the three or four months customary with commercial paper, and the farmer can produce more and market his product to better advantage.

No adequate system exists for providing the first need, and in too many places still less facilities are afforded for rural "accommodation." Hence, relatively high rates of interest, and expensive methods in loaning money to farmers for either long or short terms.

Remedy these conditions, supply farmers with cash and credits at reasonable rates, and agriculture will witness a vast improvement, production will increase, and the high cost of living will be greatly reduced. There is no substitute.

The lack in farm finance reveals underlying economic conditions that drive people from country to cities. Those economists and statesmen who have sought financial principles rather than panaceas, are beginning to realize the truth compressed into the axiom known as "Myrick's law":

"Other factors being equal, agriculture will progress in the ratio that farmers employ CASH, CREDITS and CO-OPERATION "

To supply the two needs first mentioned requires organization among farmers and co-operation with them on the part of banks, reinforced by a public opinion appreciative of rural needs, and of the farmer's true relation to the public.

More than a century ago Germany solved the problem of mobilizing land as a basis of "permanent credit," and it is nearly fifty years since the Germans learned how to co-operate to supply



the seasonal needs of agriculture through "personal credit." But the American farmer's needs are not to be met by merely transplanting foreign institutions to his soil, nor by granting the farmers petty favors.

Another defect in the American banking system is the absence of what may be called little people's banks to serve the interests of workingmen and those in very moderate circumstances in cities and towns. Their needs are quite different from the farmer's needs.

The producing and consuming masses, whether in country or town, want no financial favors—they simply want financial justice to one and all. It is entirely feasible and a relatively simple matter to accord the masses the opportunity to create the banking facilities they require, by the methods described later on in this work.

### ***Glaring Defects in Commercial Banking***

All intelligent opinion agrees with the following terrible indictment of America's present banking system, uttered by the National Monetary Commission—the one feature of its work which meets unanimous approval:

1. We have no provision for the concentration of the cash reserves of the banks and for their mobilization and use wherever needed in times of trouble. Experience has shown that the scattered cash reserves of our banks are inadequate for purposes of assistance or defense at such times.

2. Antiquated federal and state laws restrict the use of bank reserves and prohibit the lending power of banks at times when, in the presence of unusual demands, reserves should be freely used and credit liberally extended to all deserving customers.

3. Our banks also lack adequate means available for use at any time to replenish their reserves or increase their loaning powers when necessary to meet normal or unusual demands.

4. Of our various forms of currency the bank-note issue is the only one which we might expect to respond to the changing needs of business by automatic expansion and contraction, but this issue is deprived of all such qualities by the fact that its volume is largely dependent upon the amount and price of United States bonds.

5. We lack means to insure such effective co-operation on the part of banks as is necessary to protect their own and the public interests in times of stress or crises. There is no co-operation of any kind among banks outside the clearing-house cities. While clearing-house organizations of banks have been able to render valuable services within a limited sphere for local communities, the lack

of means to secure their co-operation or affiliation in broader fields makes it impossible to [now] use these or similar local agencies to prevent panics or avert calamitous disturbances affecting the country at large. These organizations have, in fact, never been able to prevent the suspension of cash payments by financial institutions in their own localities in cases of emergency.

6. We have no effective agency covering the entire country which affords necessary facilities for making domestic exchanges between different localities and sections, or which can prevent disastrous disruption of all such exchanges in times of serious trouble.

7. We have no instrumentality that can deal effectively with the broad questions which, from an international standpoint, affect the credit and status of the United States as one of the great financial powers of the world. In times of threatened trouble or of actual panic these questions, which involve the course of foreign exchange and the international movements of gold, are even more important to us from a national than from an international standpoint.

8. The lack of commercial paper of an established standard, issued for agricultural, industrial, and commercial purposes, available for investments by banks, leads to an unhealthy congestion of loanable funds in great centers and hinders the development of the productive forces of the country.

9. The narrow character of our discount market, with its limited range of safe and profitable investments for banks, results in sending the surplus money of all sections, in excess of reserves and local demands, to New York, where it is usually loaned

out on call on stock exchange securities, tending to promote dangerous speculation and inevitably leading to injurious disturbances in reserves. This concentration of surplus money and available funds in New York imposes upon the managers of the banks of that city the vast responsibilities which are inherent in the control of a large proportion of the banking resources of the country.

10. The absence of a broad discount market in our system, taken together with the restrictive treatment of reserves, creates at times when serious financial disturbances are anticipated a condition of dependence on the part of individual banks throughout the country, and at the same time places the farmers and others engaged in productive industries at a great disadvantage in securing the credit they require for the growth, retention, and distribution of their products.

11. There is a marked lack of equality in credit facilities between different sections of the country, reflected, in less favored communities, in retarded development, and great disparity in rates of discount.

12. Our system lacks an agency whose influence can be made effective in securing greater uniformity, steadiness, and reasonableness of rates of discount in all parts of the country.

13. We have no effective agency that can surely provide adequate banking facilities for different regions promptly and on reasonable terms to meet the ordinary or unusual demands for credit or currency necessary for moving crops or for other legitimate purposes.

14. We have no power to enforce the adoption of uniform standards with regard to capital, reserves, examinations, and the character and

publicity of reports of all banks in the different sections of the country.

15. We have no American banking institutions in foreign countries. The organization of such banks is necessary for the development of our foreign trade.

16. The provision that national banks shall not make loans upon real estate restricts their power to serve farmers and other borrowers in rural communities.

17. The provision of law under

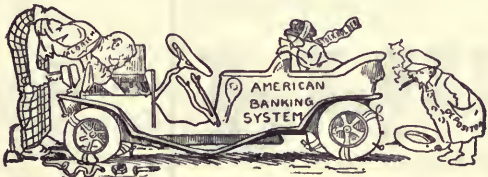
which the government acts as custodian of its own funds results in irregular withdrawals of money from circulation and bank reserves in periods of excessive government revenues, and in the return of these funds into circulation only in periods of deficient revenues. Recent efforts to modify the independent treasury system by a partial distribution of the public moneys among national banks have resulted, it is charged, in discrimination and favoritism in the treatment of different banks.

| S                                              | M                                                            | T                           | W                                                   | T                     | F                     | S                     |
|------------------------------------------------|--------------------------------------------------------------|-----------------------------|-----------------------------------------------------|-----------------------|-----------------------|-----------------------|
| <i>Ghastly Average Record of Bank Failures</i> |                                                              |                             |                                                     |                       | <i>Bank closed up</i> | 2                     |
| 3                                              | 4                                                            | <i>Another bank failure</i> | 6                                                   | 7                     | 8                     | <i>Bank closed up</i> |
| 10                                             | 11                                                           | 12                          | <i>Bank closed up - will pay only 50% on the \$</i> | 14                    | 15                    | 16                    |
| 17                                             | <i>Bank failure</i>                                          | 19                          | 20                                                  | <i>Bank closed up</i> | 22                    | 23                    |
| 24                                             | <i>Small bank failure this month - up to the bad average</i> | 26                          | 27                                                  | 28                    | 29                    | 30                    |

W H Y

have banks failed in the United States at the rate of one bank about every four days for 20 years?

B E C A U S E



as the Aldrich report quoted above truly says, there are seventeen terrible defects in our system of commercial banking, not to mention the absence of agricultural finance and land banking.



No. 78 Zone 5

**Prima**

Accepted by Wellsville (N.Y.)

Wt1 Co-op BK

\$75.00

To the

**Wellsville National Co-operative Bank**

of Wellsville, New York, No. 78, in Zone 5

Buffalo, N. Y. January 1 1914

For value received pay this **first bill of exchange**

In the sum of seventy-five Dollars

To the order of George B. Anderson on April 1 1914

and charge the same to the account

Signature

Smith A. Henry

### A Bill of Exchange Adapted to America

The Wellsville bank writes the word "accepted" across the face of this "bill," followed by its signature and date. The bill thereupon becomes an obligation of said bank, which thereby agrees to pay it at maturity. George B. Anderson indorses it, and sells it to his own bank or broker, or elsewhere, receiving \$75 for it, less discount at whatever may be the rate of interest current at the moment for such paper. Smith A. Henry's order or "bill" has thus been transformed into three-name paper of the safest character. For at maturity it must be paid, under penalty of instant bankruptcy, (a) by the Wellsville bank, which looks to (b) Anderson the indorser for the money in case (c) the drawer, Henry, fails to meet it when due. If there is more than one indorser, the bill is that much stronger. In practice, the bill of exchange is usually as good as a check, and there is no more risk in indorsing it than there is in indorsing a check, because the drawer always arranges with the accepting bank to take care of it when due. Therefore, the bill of exchange is a most attractive safe short-time investment for whatever idle funds any bank may happen to have temporarily. Collateral security may or may not be attached to it. Such bills are practically unknown in America; they are well-nigh universal in Europe. This form of credit instrument may well be used, but should not be abused.



"In granting the accommodation, the obligation that the bankers take upon themselves is that they will accept the bills upon presentation. This acceptance consists in the bankers writing across the face of the drafts the word "accepted," adding their signature and the date. It is in the nature of a certification that the bills will be paid at maturity—that is, a specified number of days or months from the date appearing in the acceptance, or three days later if grace is allowed, as in England.

### *Security for Acceptance*

"When a banker grants accommodation to a customer by means of an acceptance, he may secure himself in various ways. Ordinarily, a European banker accepts a customer's draft merely upon his general responsibility, the banker's risk being much the same as if he had discounted the customer's note running a certain length of time. Where the customer is an importer, the banker ordinarily accepts the drafts upon the delivery to him of the documents covering the shipment, which documents he then turns over to his customer against a trust receipt.

"When a credit of this kind is opened, the usual practice is for the banker to require the signature of a form containing an agreement to hold him harmless for accepting the bills, to place him in funds sufficient to pay off the bills three days prior to their maturity, and to pay him a commission on the transaction, this commission varying according to the length of time the bills are to run and the financial standing of the customer. The cost of the accommodation to the customer is this commission plus the prevailing rate of discount for banker's bills.

### *Acceptances Not Legal Here*

"In the United States the national bank act does not permit banks to accept time bills drawn on them. Although the act does not specifically prohibit such acceptances, the courts have decided that national banks have no power to make them. This restriction has had a very considerable influence upon the development of banking in this country. For some time after the passage of the national bank act, merchants and manufacturers



provided themselves with funds by discounting their promissory notes with their local banker.

"Gradually, however, many concerns, finding that their needs were outstripping the banking accommodation which they could secure in their immediate vicinity, came to place their notes in the hands of brokers, who in turn disposed of them to such bankers as possessed greater surpluses than they could satisfactorily invest at home. It is this method of borrowing which is now largely employed. In other words, the prohibition of bank acceptances has led to the creation of a vast amount of promissory notes instead of time bills of exchange. The difference between these two classes of instruments accounts to a great extent for the difference between European and American banking. In the case of time bills of exchange drawn on and accepted by prime banks and bankers, there is practical uniformity of security. In the case of our promissory notes or commercial paper there is no such uniformity, the strength of the paper depending on the standing of miscellaneous mercantile and industrial concerns.



### ***Uniform Security for Discount Rate***

"It is this uniformity of security, on the one hand, which makes possible a public discount market; it is the lack of it in single-name paper which makes such a market impossible. As a result, we have great discount markets in London, Paris, and Berlin, and none in New York. In European centers the discount rate is the rate upon which the eyes of the financial community are fixed. In New York it is the rate for day-to-day loans on the stock exchange.

"The advantage in character of the one rate over the other clearly indicates an important advantage of European banking systems over our own. In the first place, the European discount rate bears a very direct relation to trade conditions. Its fluctuations depend primarily on the demand for and supply of bills which owe their origin to trade transactions, as balanced against the demand for and supply of money. If trade is active the supply of bills becomes large, rapidly absorbing the loanable funds of the banks. As these surplus funds become less and less banks are unwilling to discount except at advanced rates. If trade is slack, less accommodation from bankers in the way of acceptances is required, bills become fewer in number, the competition for them in the discount market more keen, and the rate of discount declines. Low rates are an incentive to business and advancing rates act as a natural check.

"The New York call-loan rate, on the other hand, bears only an indirect relation to trade conditions. Its day-to-day fluctuations register mainly the speculative and investment demand for stocks. Low rates, instead of being an incentive to the revival of trade, are rather made the basis for speculative operations in securities.

### *Benefits of Acceptances*

"The striking difference, however, between European discount rates and the New York call-loan rates is that the former are comparatively stable and the latter subject to most violent oscillations. Foreign discount rates as bank reserves become depleted advance by fractions of one per cent. In New York the money rate advances on occasion 10 per cent at a time, mounting by leaps and bounds from 20 per cent to 100 per cent in times of stress.

"There are two principal reasons for the stability of foreign discount rates: In the first place, trade expands and contracts gradually, so trade bills multiply or diminish in number little by little, producing a gradual increase or decrease in the demand for money. In the second place, discount rates are steady because there is a free movement of funds between the countries possessing great discount markets."

### *Used in Small Transactions*

It would be difficult to improve upon the foregoing remarks as applied to commercial banking, but I would direct attention to the great use of the acceptance in Europe among people of the smallest means. Hundreds of thousands of acceptances are discounted for sums as small as from \$5 to \$50, or anywhere between these figures, as well as for larger amounts. They are usually paid within from two to four months of their date, and must be met at maturity by the maker or paid by the bank which accepted them, thus making the acceptance one of the most liquid forms of paper for banks to hold. As Wolff says:

"The acceptance is the most convenient record of the claim. And it has this additional recommendation, that it is in its turn reconvertible into money, yielding, to a bank of good repute, a profit in the process, since the bank is sure to obtain its discounts at a lower rate of interest than the original borrower." He also rightly emphasizes the importance of distinguishing between the acceptance which represents a legitimate trade transaction, and one drawn for speculative purposes: the latter is to be avoided, the former is quite certain to be good.



Applied to Little or Big Transactions

In Italy "collection of acceptances is made remarkably easy, postmen being authorized to collect on their rounds." The Italians employ acceptances in even the humblest transactions. The poulterer may have a bill against a housewife for say \$10 worth of poultry and eggs; the bill is not due for say thirty days, the housewife does not wish to pay it until due, but she is willing to approve it in writing as a just bill. On the strength of this collateral, the poulterer draws a bill of exchange on his little people's bank: it will accept the bill; the acceptance can then be readily sold to some of the larger banks or brokers, at the established rate of discount. The poulterer thus receives his money



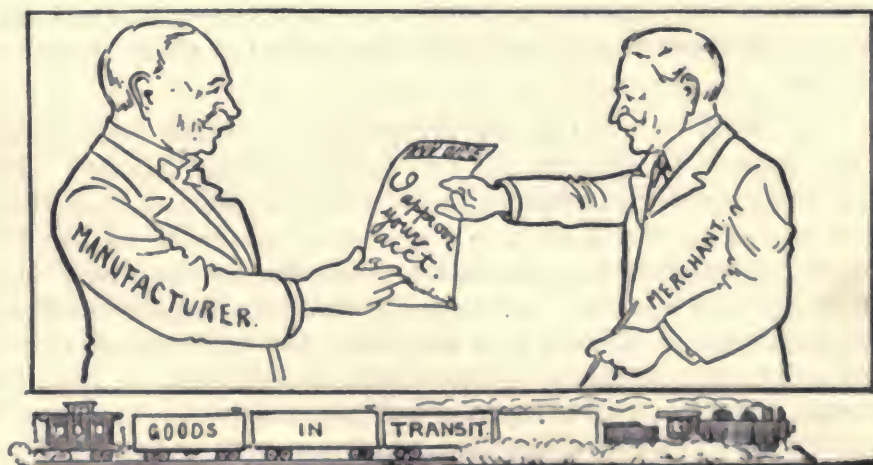
and uses it to his advantage, in due course the housewife pays her account to him, and he takes the funds to the bank and meets his acceptance the day it is due, or deposits the necessary funds to meet it a day or two before.

Thus all parties are accommodated—the debtor is not pushed, the creditor gets his money just when he wants it, pays his draft when the debt is paid; meanwhile the bank or other person in funds has obtained good interest on their little investment in the acceptance, and have their money back when the paper matures.

### *Short Credit in Transit*

Acceptance is therefore short credit. The shorter the term, the more effective control does the bank retain over the loan; while the shorter the term, the more readily convertible is the acceptance; that is, the more easily can it be converted into money by being passed on to some other bank or individual who will discount it.

Acceptances based on goods in transit from producer to market or consumer, or upon manufactured necessities in the same condition, are of the safest type, because the security they represent is en route for consumption and must be paid for by the consumer in a short time.



MANUFACTURER OBTAINS CASH ON ACCEPTANCES FOR

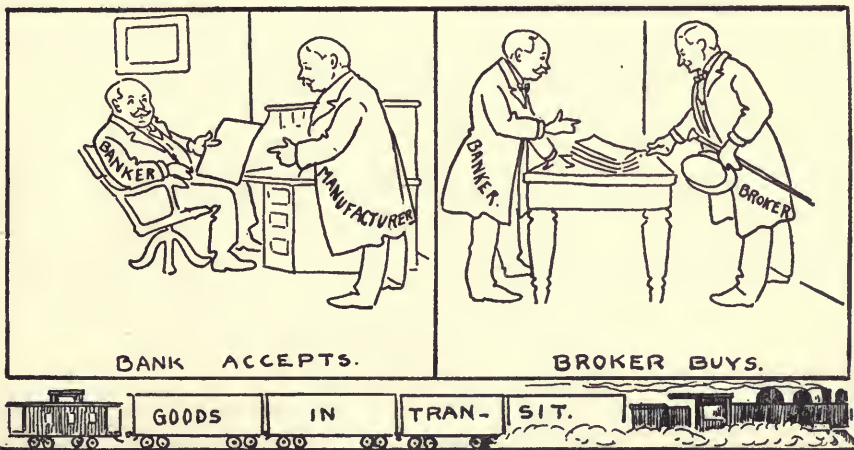
The acceptance can thus be made an instrument of great convenience in the rural trade. For instance, in the case cited in Chapter VII, if Mr. Doe wished to buy more cotton for export, he could draw bills of exchange upon the firm in London to whom the cotton was shipped, his bank could "accept" them, and then the paper could be sold readily, less only the discount at current rate of interest.

This instrument, however, should be strictly confined to short time obligations, which are certain to be met. It cannot safely be applied against cord wood, grain, cotton, other produce or manufactured goods in the hands of original producers and not yet en route to market nor sure to be sold in time to liquidate the bill of exchange. The reason for this is obvious.

Of course, no bank could discount such paper beyond the limit imposed by its reserves, but then it might sell the paper to other banks, or on the open market to purchasers of such paper, or in a pinch it might offer the same for rediscount to the zone branch of the American Reserve Union.

### ***Remarkably Convenient***

The wide applicability and safety of the acceptance justifies its permissible use, within well defined limits to prevent overdiscounting. The law should very strictly oblige the maker



GOODS IN TRANSIT TO HOME OR FOREIGN MARKETS

of a bill of exchange to meet it when due, under penalty of being publicly posted as a bankrupt, unless he privately arranges with the accepting bank to take care of it for him. This involves important lessons to people in the sanctity of contracts, and the necessity of meeting payments when due, and thus establishing character as a basis of personal credit.

### ***Difference Between Bill and Note***

The bill of exchange accepted by the bank is quite different from a note signed by the same party and indorsed by the bank. The acceptance is a loan of the bank's credit, the indorsed note is a direct liability involving the loan of money from and by the bank.

The nearest thing to the acceptance which we have in American usage, is the undated check or the check dated ahead, but it is not much used and banks do not like to accept, approve or indorse the same. The use of drafts is common here, but their acceptance by the bank is for immediate discharge by being at once taken up by the person upon whom drawn. The bill of exchange, on the contrary, does not become a draft until the day it is due, and its payment at that time was previously guaranteed by the accepting bank.



# Part Three

## Banking Federation

### Contents of this Part

#### Chapter XI—Co-operative Organization for Banking Federation

|                                                                                                                                                                  | PAGE |                                                                                                       | PAGE |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------|------|-------------------------------------------------------------------------------------------------------|------|
| 1. The individual person is the unit                                                                                                                             | 77   | 4. <i>Zone League</i> . Each bank also belongs to                                                     |      |
| 2. Start with the individual <i>bank</i> as the basis                                                                                                            | 77   | (a) Its <i>Zone League</i> , and through this agency, each bank also is                               |      |
| (a) Include existing national banks                                                                                                                              | 78   | (b) a member of the American Reserve Union.                                                           | 80   |
| (b) Admit state banking institutions                                                                                                                             | 78   | 5. <i>American Reserve Union</i> is composed of the <i>Zone Leagues</i> , and their constituent banks | 81   |
| (c) Authorize the incorporation of national co-operative banks—local "people's" institutions for savings and loans, which affiliate with some larger bank nearby | 78   | 6. <i>Land Banks</i> in each state under the federal law                                              | 82   |
| 3. All banks in each community unite in a local association called a <i>Clearing House</i>                                                                       | 79   | 7. Provide for National American <i>Export</i> banks                                                  | 82   |
|                                                                                                                                                                  |      | 8. Significance of the architecture Similar banks under state law                                     | 83   |

#### Chapter XII—Merits of Federation

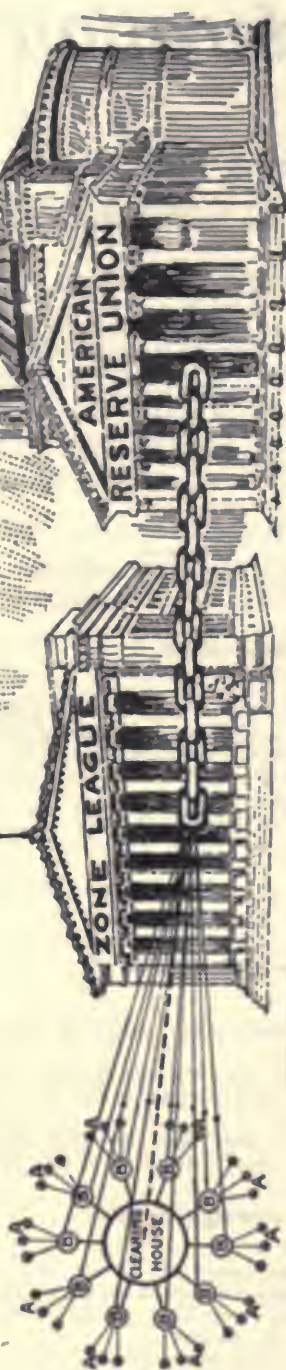
|                                                                    | PAGE |                                                                                                                    | PAGE |
|--------------------------------------------------------------------|------|--------------------------------------------------------------------------------------------------------------------|------|
| Every sound principle observed                                     | 84   | Thus the American Reserve Union becomes a co-operative union of all interests, each of which is fairly represented | 88   |
| Representative democracy in finance                                | 84   | Why that title?                                                                                                    | 89   |
| Insuring the good of public as well as banks                       | 85   | Co-operative people's banks                                                                                        | 90   |
| No money trust possible                                            | 85   | Mortgage-finance and export banking                                                                                | 90   |
| People's representation simple, practical and certain              | 85   | Triumph of representation, organization, co-operation                                                              | 90   |
| Equal banking representation in local unions                       | 87   |                                                                                                                    |      |
| Representation in <i>Zone league</i> of bank owners and bank users | 87   |                                                                                                                    |      |

#### Chapter XIII—Important Considerations

|                                       | PAGE |                                                                                 | PAGE |
|---------------------------------------|------|---------------------------------------------------------------------------------|------|
| Each zone an economic commercial unit | 91   | The whole affair subject to the congress                                        | 98   |
| Their proper delimitation insured     | 93   | Charter the American Reserve Union, like other national banks, for twenty years | 98   |
| Forty-two zones not too many          | 93   | Public must keep its grip on the powers of Cash, Credits and Co-operation       | 99   |
| Decentralization of credits           | 94   |                                                                                 |      |
| Co-operative mobility of reserves     | 95   |                                                                                 |      |
| Popular rights plus efficiency        | 95   |                                                                                 |      |
| Banks and public unite                | 96   |                                                                                 |      |
| Justice to bank owners                | 97   |                                                                                 |      |

#### Chapter XIV—Financing Our Foreign Trade

|                                                                                  | PAGE |                                                                                          | PAGE |
|----------------------------------------------------------------------------------|------|------------------------------------------------------------------------------------------|------|
| American export banks                                                            | 101  | Domestic banks may be shareholders                                                       | 104  |
| Need of them if the United States is to compete with England, Germany and France | 101  | Immense possibilities for expansion                                                      | 104  |
| Should organize under federal law, and be subject to the congress                | 102  | Making New York the center of the world's finance                                        | 104  |
| Ample capital and surplus                                                        | 103  | The United States dominant in gold, in trade, in civilization, insuring peace among men! | 105  |



#### A BRIEF DESCRIPTION

- A, a little co-operative national "people's" bank, or small state bank.
- B, "regular" commercial banks, or other banks, institutions, state or national, having \$25,000 capital or more.
- C, the clearing house, consisting of all the B banks in its vicinity. Each bank has two votes therein—one by and for its management, the other for and by its customers and elected solely by them.
- D, headquarters of the zone league, to which belong all the B banks within the zone. Each bank has two votes therein—one by and for its management, the other for and by its customers. Each clearing house is affiliated with the zone league, but has no voting representation therein.
- E, home of the American Reserve Union, Washington, D. C., of which each B bank in the United States is a member. One of the American Reserve Union's 42 trustees is chosen alternately by and from each zone league, 21 being bankers, the other 21 being customers representing all kinds of business, agriculture and labor. The federal government has five national trustees as officials, and therefore holds the balance of power.

#### OBSERVE THE NOMENCLATURE

1. The BANK, capitalistic or co-operative, now established or hereafter created, state or

national. Each little A bank "corresponds" with a B bank nearby. Each bank maintains its independence.

2. The CLEARING HOUSE, or association for mutual service of all the B banks in a community.
  3. The LEAGUE, composed of all such banks in each zone, and serving all the interests of the zone.
  4. The UNION of every B bank in the United States, through their zone league, into the great patriotic American Reserve Union.
- Each term or name expresses precisely what it means. It describes in almost a single word the specific institution it represents. The zone league is not a bank in the ordinary sense; it is merely an agency through which the banks mutually are enabled to better serve their customers. The American Reserve Union is a federation of zone leagues, in which each bank and customer has direct representation as described. Thus all confusion is avoided in thought or language, in function or institution.

#### NOTE THE REPRESENTATION

1. The shareholders in each BANK continue to elect its directors, who choose its officers, who manage its business, with no outside interference other than official supervision.
2. For its CLEARING HOUSE membership of two, the shareholders and management in-

terests of each bank—that is, the bank owners, choose one; the other is chosen by the customers of the bank—one man one vote—who are not owners of any of its shares. Thus both sides of the counter are represented in the clearing house and subsequent associations.

3. The owners of each bank choose one representative, the non-owners in each bank who are its customers choose one representative, these two are the bank's voting members in the district assembly (one man one vote) which elects its representatives in the zone LEAGUE. The banking representatives only choose the zone controller from their district, also their district controller; the customer-representatives choose their district controller for the governing council. This council elects the trustees from its zone league for—
4. The American Reserve UNION. Thus the latter is a representative democracy, which fairly and fully represents all bank-users as well as bank-owners. The federal government holds ultimate control in the American Reserve Union by having five national trustees ex officio—the secretary of the treasury, secretary of agriculture, secretary of commerce and labor, postmaster general, and United States controller of the currency.

## **Chapter XI**

# **Co-operative Organization for Banking Federation**

### **In Outline**

**1. The individual person is the unit**

Require the representation of banking customers in 3, 4, 5, thus insuring adequate consideration for the agricultural, industrial, commercial and distribution interests, and safeguarding all the people's welfare

**2. Start with the individual *BANK* as the basis:**

- (a) Include existing national banks
- (b) Admit state banking institutions
- (c) Authorize the incorporation of national co-operative banks—local "people's" institutions for savings and loans, which affiliate with some larger bank nearby

**3. The banks in each community unite in a local association called a *CLEARING HOUSE***

**4. *ZONE LEAGUE*. Each bank also belongs to**

- (a) Its *ZONE LEAGUE*, and through this agency each bank also is (b) a member of the American Reserve Union

**5. The *AMERICAN RESERVE UNION* is composed of the *Zone Leagues* and their constituent banks**

**6. A *LAND BANK* in each state under the federal law**

**7. Provide for National American *EXPORT* banks**

**8. Significance of the architecture**

### **In Detail**

**F**IRST—The individual person, corporation, trustee, or whoever has a bank account, or desires one, or wishes to become a shareholder in a bank, or a depositor therein, or a customer thereof, shall continue to have those rights. If they want to do business with two or more banks, they may do so. No restrictions upon or interference with individual or corporate rights, powers and privileges in doing business with banks, provided only that the latter do it honestly and properly. Enable all the people to use banks freely and safely all the time. This is one of the principles of free banking by independent banks.



## Second—The Bank

*Second*, existing banks are not interfered with in any way. The stockholders continue to elect the directors, either one share one vote, or one member one vote, as the by-laws of the bank may provide.

(a) No obstacles under state or national laws to the establishment of new banks, except that they are needed, are organized in compliance with the statute upon a solid basis, and are conducted along safe and legitimate lines.

(b) Banks incorporated under either national or state laws are to enjoy equal benefits and responsibilities, in the co-operative federation, save only that currency issue is limited to nationals.

(c) Bring within reach of the people of small resources who most need banking facilities but who do not now enjoy them, the means for incorporating little co-operative people's banks for savings and loans. Start this evolution first under national law, but each state is free to adopt it also. Each of these independent little banks may have for its correspondent some larger bank conveniently accessible, through which the little people's institution affiliates with the whole fiscal system.

### *Heroes*

Heroes of shot and shell  
Fought their part well  
In the grim hell  
Of battle.

But the workers of life,  
Faithful in strife,  
Until they knife  
Death's rattle—

*Are they not heroes too?*  
—H. M.

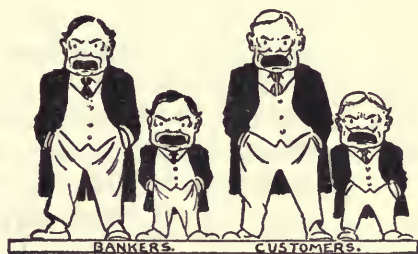
These small co-operative banks (described in full in Part V) federate with the land bank for their state, and are an integral part of the American land mortgage banking system set forth in Part VI. For a banking federation to thus provide for "the common people," is one of the original features of my method which distinguishes it from all others. These producing and consuming masses are the elements whose welfare most needs to be conserved—they support the race; they are the heroes of industry!

## ***The People's Representation***

begins at the next point. For the first time in the history of finance, a method is provided whereby the users of banks—depositors and borrowers, in contradistinction to owners of banks—shareholders and directors, are granted the voice, the representation and the power imperatively required for safeguarding the people's welfare in the subsequent federation of banks. Yet this is accomplished without infringing upon the prerogatives of any bank's management, and does not interfere therewith. Note carefully:

### ***3. The Clearing House***

*Third*, each bank with \$25,000 capital or more has two memberships and two votes in the local clearing house. Each bank's shareholders elect, by majority vote, the person who may be termed the *banking-member* of the clearing house. The patrons of the bank, not shareholders or officers therein, but who are either depositors or borrowers or both, elect (by majority vote of those present at a duly called meeting) the person who may be called the *customer-member*. A shareholder or customer in two or more banks may choose in which he prefers to vote, but may vote for the clearing house member of only one bank. Member's term of office, two years, expiring alternately, so that each bank always has one "old" member, and may have one "new" member if the retiring member is not re-elected.



All have equal voice, big and little, bankers and customers!

The committees of the clearing house shall consist of odd numbers, half elected from and by the banking members, half elected by and from the customer-members; the odd man by these, and he shall be chairman.

The usefulness of the clearing house is to be immensely enhanced in the method proposed, of which it is properly an inseparable part. The clearing house will be brought to its full fruition, yet with justice to the public, by the means described in Chapter XVI.

#### 4. Commercial Zone League

*Fourth, Zone League*—Divide the United States into 42 commercial zones, each zone bounded, not by state lines, but by the lines of demarcation between the area whose commercial business naturally revolves around a certain city; but these boundaries are not in any way to restrict the free flow of finance or any other form of trade between zones or states.

Each zone is composed of *seven districts*, each district containing an approximately equal number of banks. The *banking* representatives in each district, in assembly convened, elect a comptroller, also a councilor; the *customer*-representatives in each district likewise meet and elect a councilor. Two-thirds vote elects; term of office seven years, expiring in rotation; not eligible for re-election.

(a) The seven *comptrollers* are banking experts, who administer the functions of the zone league; their chairman, chosen by the governing council, is the league's executive head and active manager of the zone league's office, which is federated with the American Reserve Union; he is also United States deputy comptroller.

(b) The fourteen *councilors*—seven bankers, seven customers—choose a president from without their number, these fifteen comprising the zone's GOVERNING COUNCIL. It is this body which elects the chairman of the comptrollers, also chooses the national trustee to represent the zone in the American Reserve Union, and acts as a board of appeal to which any person, bank, or clearing house within the zone may apply for redress.

(c) No comptroller shall hold any interest in any bank. No councilor shall be an officer or



director of any bank, nor sit on a case involving any bank in which he may be interested.

(d) Each zone comptroller chairman may convene the governing council whenever he desires to confer with the councilors. The seven comptrollers may act by not less than five votes in accord. The governing council may be convened by its president for any purpose, and shall be convened only by him when it is to act as a court of appeal. Not less than 11 votes out of the 15 councilors shall be required to elect chairman of comptrollers, president of council, or trustee of American Reserve Union, also to transact other important business.

### 5. *American Reserve Union*

*Fifth, American Reserve Union*—Each zone has one member and one vote in the American Reserve Union. In half of the 42 zone leagues, the banking representatives shall elect a *banker-trustee*, to serve for seven years, and then to be succeeded by a *customer-trustee* elected by its customer representatives; reverse this in the other 21 leagues. These 42 trustees thus chosen, therefore, will consist of 21 bankers and 21 non-bankers. Three of each class retire yearly and are not eligible for re-election, thus six new men come on to the board annually—three bankers, three business men. No trustee shall hold any office or interest in any bank; three-fourths vote controls.

*The Federal Government* shall be represented upon the board of trustees of the American Reserve Union, by the Secretaries of Treasury, Agriculture, Commerce and Labor, and Postmaster-General, and by the comptroller of the currency, all ex officio. These five federal trustees, the 21 banker-trustees, and the 21 customer-trustees, make up a board of 47 trustees of the American Reserve Union. The Secretary of the Treasury may remove any zone chairman who is remiss in his duties as United States deputy comptroller. The President may remove the governor of the American Reserve Union.

The trustees of the American Reserve Union shall choose its governor by not less than a four-fifths vote of all its trus-

tees, from within or without that body, and he shall have one vote therein. Two deputy governors shall be chosen from within or without that body by two-thirds vote, but shall have a vote only if they are trustees; or if not, only when acting in place of the governor.

The trustees shall not deputize their essential powers to any committee, but shall collectively deliberate upon and decide all such affairs by not less than two-thirds vote of all the trustees of the American Reserve Union. Only the carrying out of details of policies thus agreed upon shall be referred to appropriate committees, each of five members, of whom two are customer-trustees, two banker-trustees, and the fifth (who shall be chairman) chosen by majority vote of these four. Thus forever guard against any manipulation such as was possible under the executive committee in the Aldrich plan, which ultimately gave five bankers alone almost absolute power over the finances of the American people and of their government!

## ***6. Land Mortgage Banks***

*Sixth*, Part Seven of this work fully describes a method for land mortgage banking which is adapted to American conditions, institutions and people. It is imperative that right ideas prevail upon this subject, now so prominently before the public.

Established on the right basis, developed gradually as experience points the way, and conducted in the interest of farm owners and home owners who cultivate the land they own and occupy the homes they own, the American method for land mortgage finance will be the glory of our fiscal system. Otherwise it may do harm as well as good.

## ***7. Banks for Our Foreign Trade***

*Seventh*, no system of banking reform will be complete which fails to provide for financing the export and import trade of the United States. It is humiliating that our foreign trade is still largely financed via London, Paris and Berlin. Chapter XIV sets forth briefly a feasible method for establishing

export banks under national law in a manner that is practical, safe, patriotic and adequate to the growing importance of America in the commerce of the world.

### **8. Significance of the Architecture**

The building for each zone league's headquarters, as indicated on the frontispiece of this chapter, should take for its motif the Parthenon at Athens, whose beautiful lines still express the power and culture of the earliest republic.

For the national home at Washington of the American Reserve Union, let the motif be the Pantheon at Rome, the most ancient structure in use. After twenty centuries of constant use, through all the storm and sunshine of Nature's forces and of man's actions, the Pantheon is still in splendid preservation and daily use. Its dignity, strength, endurance and history are typical of the American Reserve Union—an institution that shall conserve the people's economic welfare throughout the centuries, whatever may be the evolution of politics or government!

During my prolonged conference with the King of Italy, at the royal palace in Rome, his majesty asked my opinion of the Pantheon. My reply was to read from my original notes, made the day before, the lines below, whereupon Victor Emanuel exclaimed enthusiastically: "Why, sir, you have expressed the whole past, present and future of Rome in four lines":

*"In the Pantheon at high noon, bathed in rich light varied by sunshine and cloud, marvelous in beauty, proportioned with majestic grace and harmony, impressive with antiquity, redolent of history, vibrant with action, expressive of the evolution of government and of the advance of humanity—AN IMPERISHABLE DIAL OF LIFE, symbolic of the power that each of us may develop, if only we attune our being to the eternal poise of Nature!"*



## Chapter XII

### *Merits of Federation*

*Every sound principle observed*

*Representative democracy in finance*

*Insuring the good of public as well as banks*

*No money trust possible*

*People's representation simple, practical and certain*

*Equal banking representation in local unions*

*Representation in zone league of bank owners and bank users*

*Thus the American Reserve Union becomes a co-operative union of all interests, each of which is fairly represented*

*Why that title?*

*People's banks, mortgage-finance and export banking*

*Triumph of representation, organization, co-operation*



Democracy in Finance

BY THE foregoing method, every sound principle is observed of public weal and private enterprise, of efficient organization and effective co-operation. The scheme is based upon Mr. Fowler's plan, but involves radical improvement thereof.

Without interfering with the ownership or management of any individual bank, in all the subsequent federated activities between banks, each bank-shareholder and each non-shareholding customer has one vote and equal voice, no more and no

less. Hereby every legitimate interest of banks and of their customers will be subserved. Both have everything to gain, nothing to lose, by such representative democracy in finance.

This method will promote better understanding of the mutual interests of owners and officers of banks upon the one

hand, and of depositors and borrowers upon the other. It will be reflected in mutually improved relations, better banking, wiser use of banking facilities, deservedly greater public confidence in banks, and many other advantages to all concerned.

### ***Insuring the Good of All***

To thus apply the co-operative principle at the very root of banking federation, is one of my entirely new contributions to the art of finance, but it is thoroughly representative and fundamentally important. It is wholly in accord with American ideals of equality and of manhood, and is a feasible application of some of my First Principles. These principles must be observed from foundation to capstone in any system of finance that is to command the confidence of the American people. Either some such financial evolution or increasing danger of social revolution!

By thus granting the customer representation from the bank up through the zone to and in the American Reserve Union, we at once solve effectively, fairly and simply, the problem of insuring popular rights in finance. Then no form of money trust will be possible. No one interest may be unduly favored when all interests are thus in a position to watch, scrutinize and safeguard each other.

It will be to the customers' advantage to insist upon the proper representation of the industrial, mercantile, labor, manufacturing, agricultural, transportation and distribution interests of the community—in the clearing house, in the zone league and in the American Reserve Union. Self-interest will insure the proper exercise of this right, duty and privilege. And in economics, self-interest is the strongest and most insistent of all forces.

### ***People's Representation Feasible***

How simple and practical to carry out this method: The call for the first meeting of customers of each national bank will

be prepared by the United States comptroller of the currency, and will set forth fully the purposes of the meeting, suggesting its procedure without dictating its action. This notice will be mailed by each bank to its customers who are not its officers, directors, or shareholders; and none of the latter shall attend the customers' local or district meetings unless upon invitation of majority vote of the customers present and voting, such majority constituting a quorum for all business. Now, when the customers come together, they will be wholly free to act as their judgment dictates in electing their members in the clearing house, and their representative to the customers' district assembly

which chooses their councilor in the zone league. The first meeting of a bank's customers also chooses a permanent chairman and secretary, who shall have charge of calling their meetings thereafter.



All Interests Watch Each Other

Some bankers will say that their customers will not attend such a meeting, but if the matter is put before them intelligently and effectively, as above outlined, a surprisingly large proportion of the customers may come even to the first gathering

when convened in this manner. As the years go on, their interest and attendance will increase.

Customers will be quick to see the advantages that may accrue to them through such representation. Moreover, the fact that the abler and more competent men among the customers may be promoted to the zone council, or to a national trusteeship in the American Reserve Union, or to a lucrative banking position later, will serve as an additional stimulus. Here again self-interest may be trusted to secure the co-operation of customers representing the various interests and vocations of the people.



### ***Banking Representation in Local Associations***

In the third step by this method—the federation of local banks into their local clearing house—each bank has equal vote and voice, irrespective of its size, wealth or power.

This principle of equal representation always has been observed in American clearing houses.

The only new feature proposed is that, instead of one bank one vote, each bank has two votes—one voicing its controlling management, the other representing its customers, the non-bank owners who are the principal bank-users.

Such representation in the very beginning of association and union of effort among banks, is the only way to accomplish the desired efficiency without possible injustice to any bank or customer.

### ***Representation in Zone League***

In the fourth step, where the banks unite in their zone league, each bank and its customers have equal voice in the league's governing council. To this council, any customer, bank or clearing house within the zone may appeal for the arbitration of any matter upon which it may feel that injustice has been or may be perpetrated. While this arbitrating body shall not in any way usurp the functions of the established courts of justice—either the United States courts or state courts, it will succeed in satisfactorily disposing of many cases which otherwise might have to go to the law courts. The governing council will also insure the smooth operations of the zone league, with due regard to all the banks and other interests concerned therein.

The governing council naturally will be composed of the older and more experienced bankers, business men and farmers, who are possessed of sound judgment and discretion.

The active duties of administering the daily functions of the zone league will be in charge of its seven comptrollers, under the direction of the chairman. In effect he will be at the head of the combined banking operations of the entire zone, and therefore must be the ablest man available.

The formation of the zone league is as simple as it is representative: At their meeting, the customers of each bank choose one to represent them in the district assembly as well as in the clearing house; the shareholders do likewise. Each zone is divided into seven districts, each containing an equal number of banks. The one banking representative from each bank in a

district meet and choose their comptroller, also their councilor, the one customer-representative from each bank in the district meet and choose their councilor. The comptroller board chairman is selected by the council, which also chooses its president.



Representation for All Interests

Since the zone league is not a bank, in any of the usual acceptances of that term, it should *not* be called a bank. It

is only the means or agency through which all its constituent banks are enabled to conserve their mutual interests and thus better serve their customers, who are the whole people.

### ***American Reserve Union***

Now, in the fifth step, that is, in the American Reserve Union, banking and customer interests also have equal representation upon the board of trustees. Neither side alone may control, dictate or monopolize. Each side is strictly and entirely representative, chosen upon the co-operative principle of one bank one vote, or one man one vote. This representation comes right up direct from the banks and the people, upon a basis equal to each institution and individual, whether great or small, rich or poor!

While thus representative, yet the federal government has ultimate control. It has five trustees *ex officio*; therefore, if the other two parties become deadlocked, the government would have the controlling voice and final power. The national trustees being the head respectively of four great departments of

the government, the public interests thereby are still further conserved. The comptroller of the currency, whose office is in the closest official touch with all the banks, would be a further precaution upon the board.

A three-fourths vote of all the trustees being required upon all matters of policy, untoward or unpatriotic combinations against the public welfare are impossible. The trustees may not delegate their powers to any little committee, but the whole body of trustees must give proper consideration to all matters of policy.

### ***The Title "American Reserve Union"***

is in every way superior to the names which have been suggested of national reserve association, national people's bank, or federal reserve bank.

The American Reserve Union is a union in fact as in name. It is a union of all the banks, which contribute to its gold reserve. These banks and their customers are leagued together in the respective zones, and it is the officers they elect who conduct the league of the American Reserve Union for each zone. Thus we have a representative federation of bank owners and bank users—local, zone and national—united in and forming the American Reserve Union. This is directly opposite to the deservedly unpopular Aldrich plan, and still further is it removed from the old United States bank of unsavory odor. Nor is the American Reserve Union a central bank; it does banking only with banks, either at Washington or through its zone agencies, and thus serves all without competing with any.

Particularly should the term "*American*" be used, not only to emphasize American principles and American nationality here within our own borders, but also for use and effect abroad. In each and every country on earth this name will be a synonym of strength, integrity and enterprise—a magnificent and constant advertisement of the United States of America. These foreign nations each have their own nationality to foster, and the term national or federal reserve would therefore have no such meaning among foreign peoples as would the title "American Reserve



Union." These words also appeal to the spirit of patriotism and of union among our own people.

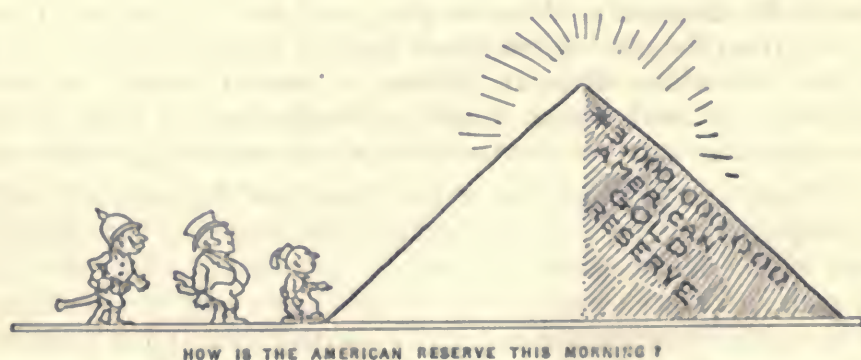
The title is psychologically sound, scientifically expressive, popularly pleasing, and cleverly alliterative.

### ***People's Banks, Mortgage Finance, Export Banking***

The chapters later on dealing with these vital subdivisions of the whole problem show how the same principles are applied to these institutions. This truth will appear upon careful reading thereof.

It is also provided, throughout the whole method, that committees, as well as directorates, shall be justly representative in character. No loophole is left for selfishly unfair manipulation, yet all superfluous red tape and other unnecessary regulations are avoided.

The co-operative federation outlined thus becomes a triumph of representation and organization, co-operation and efficiency!



## *Chapter XIII*

# *Important Considerations*

*Each zone an economic commercial unit*

*Their proper delimitation insured*

*Forty-two zones not too many*

*Decentralization of credits*

*Co-operative mobility of reserves*

*Popular rights plus efficiency*

*Banks and public unite*

*Justice to bank owners*

*The whole affair subject to the congress*

*Charter the American Reserve Union, like other national banks, for twenty years*

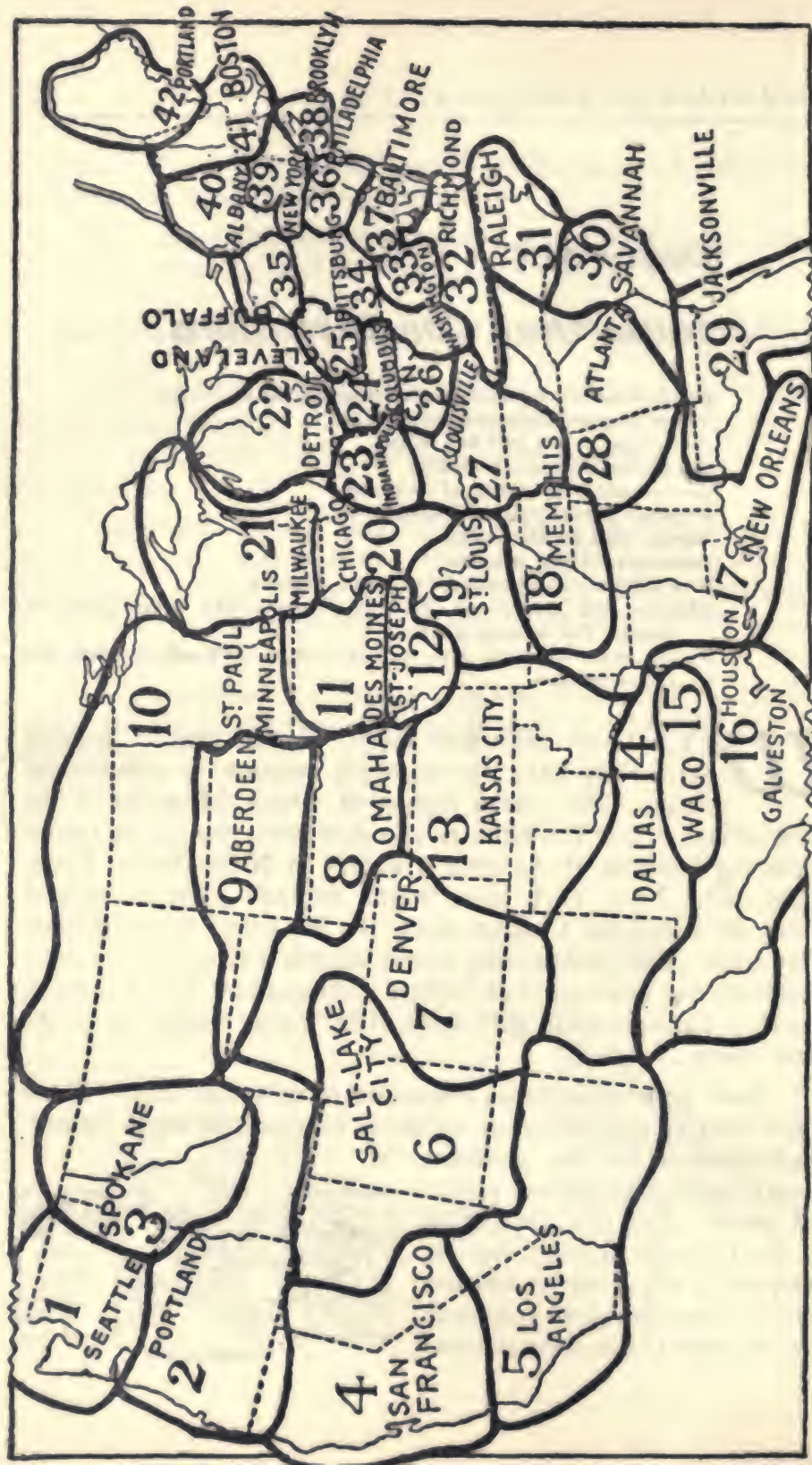
*Public must keep its grip on the powers of Cash, Credits and Co-operation*

**W**HY not have each zone cover only one state? Because state lines have no necessary relation to commercial lines. The cotton region of which Memphis is the commercial center has little in common with the active manufacturing business of the area tributary to Nashville or Knoxville. The New York zone would include parts of several states, so would the Chicago zone, the St. Louis or the Kansas City zone. The Boston zone would include a large part of New England, but southern and western Connecticut, which does its banking business so largely with New York, would be in the latter zone.

Each zone is to be an economic commercial unit. These zones may be considered as unofficial commercial states, in contradistinction to the political units which constitute our political states. Let this distinction be fixed clearly in mind, for our purpose is efficiency in finance, which depends upon economic factors rather than upon govern-



Reached by Mail



PRELIMINARY SUGGESTIONS INDICATIVE OF HOW COMMERCIAL BANKING ZONES DEPART FROM STATE LINES

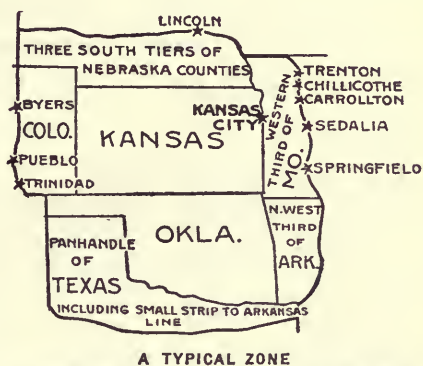
This chapter, also Chapters XII and XVII, must be read carefully to realize the why and how of zones and of the league of banks in each zone. Note particularly page 135.



mental division of territory or political administration. The head office of each zone league of the American Reserve Union should be at the natural commercial center of its territory, and so located that each bank in the zone league may be reached by mail within a few hours.

The 42 zones will adequately cover each of the different commercial areas of the United States, not only for the present, but for probably half a century to come. Their boundaries are to be selected with due regard to all economic conditions and tendencies. The work of laying them out may be left quite properly to a commission appointed by the President of the United States.

This body of disinterested practical experts would investigate, give hearings, invite suggestions, submit a tentative layout for public criticism, and its final judgment would stand, unless modified by unanimous vote of the five federal trustees of the American Reserve Union acting as a court of appeal. By such procedure, every region would get full consideration and just treatment in determining the many vexed details involved in mapping zone areas.



**A TYPICAL ZONE**  
This shows the territory claimed by the Kansas City Clearing House as the area of which it is the financial and banking center

### ***Not Too Many Zones***

Forty-two zones, each with one trustee in the American Reserve Union, is by no means too large a number. The Aldrich bill was criticized for having only fifteen separate divisions, while the Fowler bill suggested twenty-eight.

We must remember that population is constantly increasing, business is developing in every zone, and we are establishing a method to endure perhaps for a century.

Furthermore, twenty-one trustees from the business interests, twenty-one trustees from the banks, and five trustees from the

federal government, making a body of forty-seven national trustees, is not too large a number to be in charge of the great powers and usefulness of the American Reserve Union. Such a body is representative in every way of every interest, yet it is not too unwieldy for the effective conduct of business.

### *Decentralization of Credits*

The zone system also will have the very desirable tendency to decentralize credits and to upbuild the financial resources of the respective zones. Individual deposits will be used more

generally for loans within the territory of the local bank. Thus the cash and credits of each locality will be employed to develop its economic welfare, instead of being drained away. Surplus balances in one district, instead of flowing to New York and Chicago for feeding speculation on the stock exchange, will then flow into the zone league to be loaned to banks elsewhere in the zone that can safely employ them in loans to their customers for productive purposes.



Decentralization of Credits

The existing system has drained money and credits away from the country to the city—

away from the poor to the rich, away from the weak to the strong. It has produced a centralization of wealth-producing agencies which is nothing less than a menace. Such centralization is an underlying cause of effects like trusts, conspiracies, and the whole ilk of ills that beset the future.

To decentralize the money power, to decentralize the facilities for credit, to afford means whereby all the people may co-operate in providing themselves all the time with the banking

facilities to which they are entitled—these purposes will be achieved by my method. No greater economic problem now confronts the nation.

### ***Co-operative Mobility of Reserves***

Now the decentralization thus provided for, in no wise weakens the gold reserve or impairs banking power. Quite the contrary. For, as will be seen in Part Four, this method implies a gold reserve not only bigger than ever, but one that may be available at every instant at any point where needed.

A reserve that cannot be used when the emergency arrives against which it was created, is relatively of little use. That is just the trouble with America's fiscal system today. We should have reserves that may be used when needed, that shall be replenished promptly following such use, and above all that can be mobilized at a moment's notice at any point. Co-operative mobility in reserves is the last word, and is provided in this method as originally suggested by Fowler.

Furthermore, transfer of funds or exchanges of credits between banks or zones in different parts of the country, will be facilitated and economized by being effected through entries upon the ledger of the American Reserve Union, much as local banks balance their claims against each other in the local clearing house, or as depositors' checks are cleared through the bank upon which they are drawn. Free trade in money and credits—no needless delays, red tape, restrictions or expense!

### ***Popular Rights Plus Efficiency***

While ultimate control by the nation is assured, the whole method is kept independent of political manipulation. The system is certain to be conducted on strictly business principles, with due regard to the interests of both lenders and borrowers.

Moreover, the Myrick method is free from the monopolistic and undemocratic basis of representation set up by the Aldrich plan. My method maintains the independence of each bank, insures equality of power between state and national banks,



and provides that any bank may enjoy the benefits of associated effort and co-operation without being subjected to possible unfair interference with its functions through the manipulation of a self-contained and all-controlling central money power.

My method enables the people, the customers, to elect their own representatives in the fiscal system, independent of and outside of the owners and managers of banks, yet this is done without in any way interfering with the independence of any bank or of its operations by its own shareholders, directors and officers.

### ***Banks and Public Unite***

By thus having the people in front of the counter choose their own representative, to co-operate with the bank management behind the counter, the organization under the Fowler system, as improved by the writer, is vastly superior to and in every way better than the defunct Aldrich plan. The latter aimed at monopolistic control by a few of an autocratic central body with dangerous powers. It was to have charge of the branches, and thus the whole plan was to be controlled from the top down. The Fowler system, as modified, is based upon a representative democracy in financial co-operation. It is co-operative, not monopolistic; representative, not autocratic. It comes up from the people and the banks, instead of being carried down to them.

The banks own and control their own reserves through their own delegates in zone leagues and American Reserve Union. The public—whose servants the banks are—is adequately represented through the delegates chosen by bank-customers, representing the agricultural, manufacturing, transportation, labor and mercantile industries.

Furthermore, the national *co-operative* banks I propose will bring banking facilities within reach of the masses who are now below the level of present commercial banks. With these little people's banks as local agencies, my method of land mortgage banking becomes feasible.

In these ways, the whole American people become part and parcel of the whole fiscal system of the United States. Nothing less will be acceptable to the people.

## Justice to Bank Owners

Some shareholders in banks will maintain that since the banks furnish all their own capital and put up all the reserves in the American Reserve Union, such capital should have the controlling vote therein. As a matter of fact, however, the capital stock, surplus and undivided profits of all the national banks are less than 20 per cent of their total resources, the balance of their funds being furnished mainly by their depositors.

Upon that basis, therefore, depositors should have equally as large a vote as shareholders. But, as neither the capital nor deposits of any bank could be profitably employed unless there were people to borrow and employ the same, it is equally important that the borrower be represented and interested, and the borrower is usually a depositor also. To give these two forms of banking custom jointly the same representation in the co-operative unions as is accorded to capital and banking management, is therefore more than equitable toward the latter.

As to the weight of influence which the large or the small shareholders should have in these federated institutions, again it may be recalled that in the Bank of England each shareholder has only one vote, irrespective of his holdings, no proxies are



NO CHANCE FOR GRAFT

The "politician," who has sometimes fattened on "contracts," special deposits of public funds, or similar nefarious practice, says to the disgusted grafter he meets as he comes out of the bank: "Tell the boys this new institution is run on the level; no chance for graft here."



BANKER AND PUBLIC UNITE



allowed, no banker is a member of the governing board, and the government has no official participation therein.

### *All Subject to the Congress*

Each clearing house, as well as the American Reserve Union, shall be incorporated under federal law and be subject to federal supervision; the zone league operates in harmony with the American Reserve Union. State banks may affiliate therewith upon the same basis as national banks.

The clearing house members, district representatives, zone councilors and comptrollers, also trustees of the American Reserve Union, should be divided into classes with different dates of expiry of term of office. This will insure retention of experienced men, also the infusion of fresh blood—both highly desirable.

The act of Congress which puts into effect this method should specify fully the relations of these institutions one to the other, the powers and privileges and responsibilities of each, and their strict accountability to public supervision and legal control, as interpreted by the courts or expressed from time to time by further acts of Congress.

As national bank charters run for twenty years, it may be wise to charter for a similar period the clearing houses and American Reserve Union which are to be incorporated under the act. Meanwhile the Congress, of course, reserves to itself the right to alter the enabling act, and the whole system should be subject to congressional review every twenty years. Canada's banking law is subject to parliamentary review every ten years.

The proposal to tie the American people to the untried Aldrich plan for fifty years, was one of its most monstrous errors. Too frequent changes should be guarded against, sufficient time assured for legitimate developments in business, but the people should never let go of their grip on the powers of Cash, Credits and Co-operation!

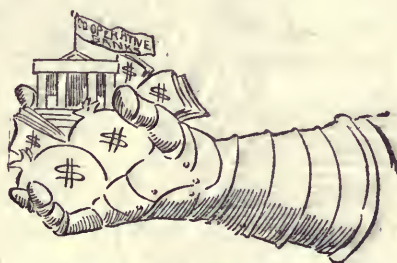
Throughout this work it will be observed that the purpose is to keep this whole banking federation in the hands jointly



of bank users and bank owners, but in such manner that the various associations—clearing house, zone league and American Reserve Union—shall be subject to the closest supervision by the executives of the federal government, while always amenable to direct control by the Congress.

There is not left any “gloaming by the twilight” under cover of which some financial combination may perpetrate nefarious practices outside the pale of law and beyond responsibility. Moreover, it is provided that all net profits accruing from the operations of these federations shall be paid into the treasury of the United States.

The people and the banks, therefore, will have every facility for using their Cash, Credits and Co-operation, but no coterie or combination will then be able to manipulate these powers to the detriment of the whole people.



**THE PEOPLE'S MAILED HAND**

Will never let go its grip on Cash, Credits and Co-operation.



NEW YORK AND NEW ORLEANS, CHICAGO AND SAN FRANCISCO, CAN SOON BE MADE CENTERS OF THE WORLD'S FINANCE AND TRADE

*Chapter XIV*

*Financing Our Foreign Trade*

*American export banks*

*Need for them if the United States is to compete with England, Germany, France and Japan*

*Should organize under federal law, and be subject to the Congress*

*Ample capital and surplus*

*Domestic banks may be shareholders*

*Making New York the center of the world's finance*

*The United States dominant in gold, in trade, in civilization, insuring peace among men!*



ONE of the gravest defects of the entire fiscal system of America, is that it does not properly provide for financing our foreign trade. With a foreign commerce of four billions annually—exports and imports—which many will live to see reach ten billions, it is a disgrace to America that the bulk of the financing of this magnificent trade is largely in the hands of foreign banks and bankers.

The spirit of commercial conquest in other lands now stirs the American people as never before. The Panama canal stimulates this spirit, quickens the imagination, and broadens the mental horizon. But with neither banking nor shipping facilities, how is the United States to meet the competition in the world's markets of her two greatest commercial rivals, England and Germany, with their system of international finance, and their mercantile marine? Not to mention the Japanese, whose marvelous powers of organization and limitless supply of cheap



labor among the brown and yellow races, may enable her to demonstrate that while America built the canal, Japan may thereby yet become mistress of the seas and dominant in the world's commerce. I venture the prediction that within ten years, under the following method, the United States will have at least one American export bank equal in capital resources to the capital stock and surplus of the Imperial Bank of Germany—about \$45,000,000, another equaling those resources of the Bank of France—a trifle over \$60,000,000, and a third that shall fairly rival the staid old Bank of England with its capital and reserves of some \$90,000,000!

The business in sight for such banking, the marvelous exploitation of the world's now undeveloped natural resources, and the enormous expansion in production, distribution and consumption which are to characterize civilization during the ensuing ten, twenty-five and fifty years, warrant the United States in laying foundations broad and deep for the part it is to play in the commerce of the world!

In order to properly care for America's foreign trade, as well as to insure for the United States supremacy in the world's exchanges, it is imperative that an adequate system of export banking be provided for *now*, fashioned after the following scheme:

### ***National American Export Banks***

The federal banking law should provide for the incorporation under it, and subject to the supervision of the United States treasury department, of institutions whose name shall include the words "National American Export Bank." The head office of such bank shall be in the United States, and a majority of its directors and of its shareholders (holding not less than 67 per cent of its capital) shall be residents of the United States.

An export bank may establish branches in such foreign countries as are set forth in its charter, and may transact its foreign business along the broadest lines, but shall not do domestic business or compete in the domestic trade with our domestic banking institutions under either national or state law.

In other words the export bank shall confine its attention to export and import business, subject at all times to such regulations as the Secretary of the Treasury may provide in harmony with the laws of Congress.

The charter of such bank might well run for thirty years, or ten years longer than the time limit for domestic banks, owing to the distances and character of the export bank's business.

### *Ample Capital and Surplus*

An export bank should have not less than \$5,000,000 of paid-up cash capital stock before it can begin business. Dividends on this capital should be limited to 6 per cent, until the surplus equals the capital.



WHEN THE UNITED STATES ITSELF FINANCES ITS FOREIGN TRADE

Like other institutions under the federal law, the national export bank would have behind it the double liability of its shareholders, so that in a few years the minimum resources of the smallest of our export banks would be \$10,000,000, with \$5,000,000 uncalled up liability, or a total of \$15,000,000.

There would be no legal limit to their growth in size, which would depend wholly upon their management and the conditions of commerce.

As their incorporation, field of operations and other essentials, are to be subject to approval of the Secretary of the Treas-

ury, no more such banks can be established than the foreign trade seems to require; the business will neither be overdone nor underdone. Doubtless there would be banks under some such titles and territory as:

- National Export Bank of South America.
- National European Export Bank of America.
- National American Export Bank of the Orient.
- World's National Export Bank of America.

### ***Domestic Banks May Be Shareholders***

The only exception to the universal rule against permitting any individual bank to hold shares in another bank (other than the reserve certificates of national land banks) would apply to these export institutions. Let any domestic bank be free to invest in the shares of an export bank, to an amount not exceeding 5 per cent of the capital of the domestic bank.

This would enable our domestic banking system to affiliate with our export finance, without having the two systems in any way conflict or compete with each other. It would also make it easy to quickly obtain the large capital required for efficient export banking, the more so as such institutions probably would be extremely profitable.

With five or ten such export banks, each having enormous resources and conducted with signal ability, and dividing the world's territory between them, it will not be long before the United States dominates the world's markets, to the enormous advantage of our export trade, and of the industries of the American people. The advantages to foreign countries and foreign peoples would be equally great. Not control but mutual service would be the object.

### ***New York Center of World's Finance***

Within ten years New York would become the financial center of the world and in connection with the American Reserve Union, would profoundly influence if not govern the international discount rate and world's money market. This would



have a most beneficial influence upon American securities abroad, and would greatly strengthen the stability of domestic finance and the development of all American industries.

In view of the close relationship existing between the international money market, and the American gold reserve and domestic discount rates, probably it would be wise to permit the group of these great banks of export to have one voting member in the American Reserve Union.

Every precaution that human ingenuity and experience can suggest should be taken and enforced rigidly to insure the proper conduct of these foreign-commerce banks, so that the title "American Bank of Export" shall become synonymous with all that is upright, efficient and progressive, wherever in the world people produce and exchange, buy and sell. With these fundamentals thus safeguarded, it is almost impossible to exaggerate the momentous permanent benefits of such national system of export banks. Ere long they would have their branches so perfectly organized and widely distributed as to effect great improvements over the existing complex, archaic and more or less unbusinesslike methods in foreign exchange.



Peace On Earth

### ***The Moral Effect***

With a gold reserve equal to if not exceeding the visible reserve in several other great nations combined, with imports and exports outrivaling the British Empire, with her civilization founded upon the co-operation of man's physical, mental and spiritual natures, the United States would then be in a position to promote harmony between nations—"on earth peace, good will among men."

## Cash RESERVES of National Banks

*Reported as they were on 4 September 1912,  
and how they would be under the method herein proposed*

IN MILLIONS OF DOLLARS

### AS THEY WERE

|                      |           |
|----------------------|-----------|
| Cash on hand         | 941       |
| Owed state banks net | 881       |
| Net cash reserve     | <u>60</u> |

|            |            |
|------------|------------|
| Deposits   | 5,951      |
| Bank notes | <u>714</u> |

Total demand obligations 6,665

Reserves nine-tenths of 1 per cent of total demand obligations.

### AS THEY WOULD BE

|                  |            |
|------------------|------------|
| Cash on hand     | 1,655      |
| Owed state banks | <u>881</u> |
| Net cash reserve | <u>774</u> |

|          |       |
|----------|-------|
| Deposits | 5,951 |
|----------|-------|

Total demand obligations 5,951

Reserves now are up to 13 per cent of total demand obligations.



This apparently miraculous transformation is possible without a single dollar of taxation, without any disturbance in finance, but with immeasurable advantage to every citizen, to the United States, and therefore to the world. See Chapters XIX and XX.



# Part Four

## How to Effect Reform

### Contents of this part

#### Chapter XV

|                                                                                                                                                          | PAGE |
|----------------------------------------------------------------------------------------------------------------------------------------------------------|------|
| <b>What Each National Bank Does</b>                                                                                                                      | 109  |
| It goes right on doing business without apparent change                                                                                                  | 110  |
| It joins its clearing house and zone league                                                                                                              | 110  |
| It puts up with the zone league a reserve of 7 per cent in gold                                                                                          | 110  |
| It maintains in its own vaults a cash reserve                                                                                                            | 111  |
| It may issue credit currency, subject to a tax that makes such currency cost the bank same as individual deposits upon which 2 per cent interest is paid | 111  |
| It may dispose of its 2 per cent government bonds at par                                                                                                 | 112  |
| It may use its vault reserves temporarily, if their yearly average comes up to the required standard                                                     | 112  |
| It may expand and contract its reserve within safe limits                                                                                                | 113  |
| It may transact savings and trust business                                                                                                               | 114  |

#### Chapter XVI

|                                                     |     |
|-----------------------------------------------------|-----|
| <b>What the Clearing House Does</b>                 | 117 |
| What the clearing house is                          | 118 |
| The economy it effects                              | 118 |
| Outside the pale of law                             | 119 |
| To be incorporated under the federal act            | 120 |
| Membership liability                                | 121 |
| Affiliation with zone league                        | 122 |
| Operation of the clearing house                     | 123 |
| Work of the departments of clearance and collection | 124 |
| No charges for collecting checks and drafts         | 124 |
| Supervision and inspection                          | 125 |
| The department of loans                             | 126 |
| Clearing house certificates or gold for emergencies | 126 |
| Other helpful activities                            | 128 |

#### Chapter XVII

|                                                                             |     |
|-----------------------------------------------------------------------------|-----|
| <b>What the Zone League Does</b>                                            | 129 |
| An agency whereby banks perform better service                              | 129 |
| It does no business with the public                                         | 129 |
| It is not even run for profit                                               | 129 |
| A co-operative league for the common weal                                   | 129 |
| Legal status of the zone league                                             | 130 |
| The free gold reserve                                                       | 130 |
| The banking reserves                                                        | 131 |
| Mobilizing cash and credits, yet co-operating to keep them always available | 131 |
| The savings and trust reserve                                               | 132 |

#### Chapter XVIII

|                                                                |     |
|----------------------------------------------------------------|-----|
| <b>What the American Reserve Union Does</b>                    | 133 |
| Affords centralization of reserves and their mobility          | 133 |
| Decentralizes credits                                          | 139 |
| Popularizes the money power                                    | 139 |
| Preserves the independence of banks                            | 139 |
| Insures manhood above money                                    | 139 |
| Incorporates under national law                                | 139 |
| Controls free gold reserve, protecting banks and public credit | 140 |
| Fixes the rate of discount                                     | 142 |
| May buy bills and rediscount                                   | 142 |
| Performs other duties, but does not deal with public           | 143 |
| Facilitates transfers of credits and exchange                  | 144 |
| Supervises the zone leagues                                    | 145 |
| Acts as fiscal agent for the United States government          | 145 |

#### Chapter XIX

|                                                                                             |     |
|---------------------------------------------------------------------------------------------|-----|
| <b>What the Government Does</b>                                                             | 149 |
| It controls the entire situation                                                            | 149 |
| It alone coins MONEY, whether gold, silver or paper                                         | 149 |
| It permits banks to issue credit currency                                                   | 150 |
| Eventually there shall be one uniform money, in place of the ten different kinds now in use | 150 |
| Superiority of American money                                                               | 150 |

|                                                                        |      |
|------------------------------------------------------------------------|------|
| <b>The vital change needed</b>                                         | PAGE |
| American money in place of bank notes                                  | 151  |
| Vast strengthening of now precarious bank reserves                     | 152  |
| Impregnable reserves without one iota of inflation                     | 155  |
| All defects remedied without disturbance                               | 156  |
| Large advantages to national and state banks                           | 157  |
| Volume of money itself may safely fluctuate                            | 159  |
| Incidental considerations of importance                                | 160  |
| New economic transformations which insure the soundness of this method | 162  |

#### Chapter XX

|                                                                                      |     |
|--------------------------------------------------------------------------------------|-----|
| <b>New Phenomena in Gold</b>                                                         | 165 |
| New conditions have transformed the gold situation                                   | 165 |
| Conclusions as to world's production and consumption                                 | 166 |
| The unprecedented new demands for gold                                               | 166 |
| United States has gained more gold than any other nation                             | 167 |
| Use of gold in the arts                                                              | 168 |
| New developments in use of gold as money                                             | 170 |
| Gold alone not the cause of high prices                                              | 170 |
| Gain in world's reserves of gold                                                     | 171 |
| The total stock of gold money in America and elsewhere                               | 172 |
| Relation of gold to volume of paper money                                            | 174 |
| America on a hard-money basis, while Europe approaches RELATIVELY a soft-money basis | 175 |
| Relation of gold to loans and discounts                                              | 175 |
| World's showing for 21 years                                                         | 177 |
| America's remarkable gains in 21 years                                               | 178 |
| Comparisons with other countries                                                     | 180 |
| Final conclusions extraordinary                                                      | 182 |

#### Chapter XXI

|                                                                                    |     |
|------------------------------------------------------------------------------------|-----|
| <b>America's Triple Reserves of Gold</b>                                           | 185 |
| Impregnable position of the United States                                          | 185 |
| How its pre-eminence in gold may be still further strengthened                     | 185 |
| Threefold character of our gold reserves                                           | 185 |
| (1) In the federal treasury 1,000 millions of dollars, or a reserve of 50 per cent | 186 |
| (2) In the American Reserve Union 500 millions                                     | 186 |
| (3) Held by state and national banks 250 millions                                  | 186 |
| Ample lawful money reserves for the banks—gold, silver and legal tender            | 186 |
| Vastly lessened demand for gold                                                    | 187 |
| America may dominate the world's finance and economics                             | 187 |
| Still further safeguards provided                                                  | 187 |
| Apply modern credit instruments to world trade                                     | 188 |
| A proposition that can be carried out                                              | 189 |
| Elementary principles restated                                                     | 189 |
| Leave the gold standard alone                                                      | 189 |
| The final result                                                                   | 190 |

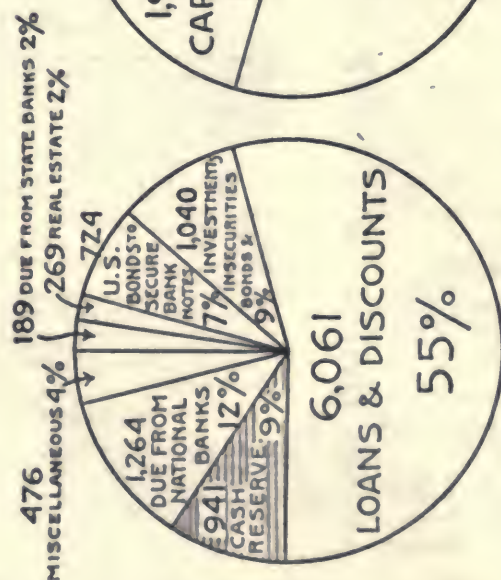
#### Chapter XXII

|                                                                                      |     |
|--------------------------------------------------------------------------------------|-----|
| <b>Postal Banking, Remittance and Collection</b>                                     | 192 |
| Successful beginning of the postal savings system                                    | 192 |
| Lessons of its present development                                                   | 193 |
| Remove all restrictions upon deposits                                                | 193 |
| Provide by law for their investment                                                  |     |
| (a) One-third in liquid form                                                         | 194 |
| (b) One-half of the remainder in national land bank bonds                            | 195 |
| (c) The balance in mortgages upon farms and homes owned and occupied by their owners | 195 |
| Caution against mistakes of foreign governments                                      | 195 |
| Reform in postal money orders                                                        | 196 |
| Conveniences that should be embraced in the new UPOs, or Universal Postal Orders     | 197 |
| The necessary instrument perfected by the author                                     | 198 |
| Postal service only in its infancy                                                   | 199 |

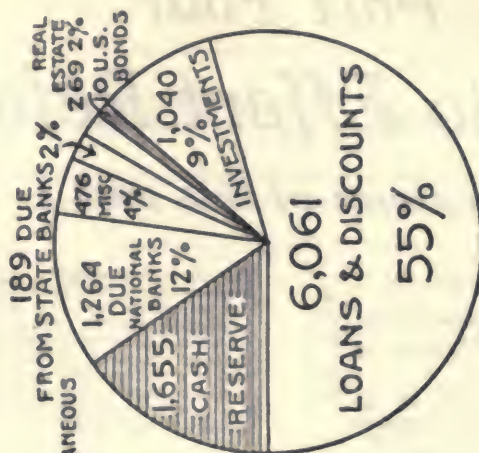


# Condition of 7,397 National Banks in the United States

The first circle below shows the total resources of all these banks, based on their reports under date of 3 September 1912, to the Comptroller of the Currency



The next circle shows the liabilities as officially reported at the same time. The last circle shows how the resources would have stood had the method herein advocated gone into effect as of that date.



ACTUAL RESOURCES  
as officially reported

(The figures for amounts are shown in round millions of dollars. The proportions of each of these amounts to the total is stated in percentages. The figures are aggregated \$10,803,400,760.33, and the liabilities were the same.)

The eye will at once see that, by the change recommended, the cash reserves are increased from 914 millions to 1,655 millions of dollars; that is to say, from 9 per cent to 15 per cent. By the method proposed, the banks would exchange their United States bonds and the bank notes outstanding against same, for an equivalent in

LIABILITIES  
as officially reported

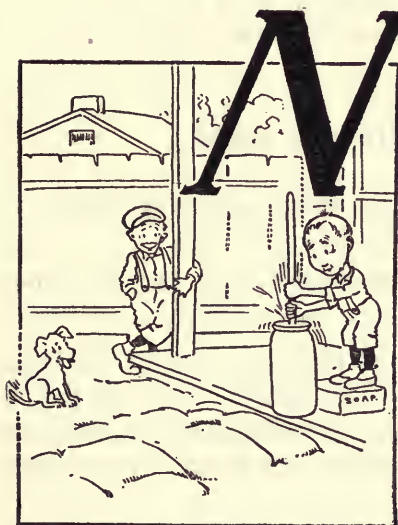
as they would be under the method proposed as they would be under the method proposed. The re-

lawful money, which is added to their reserves. This is done without increasing in any way the total volume of money or of currency—no inflation. Thereafter the nationals could issue current credit when needed, as well as book credits, but only in a manner that will be absolutely safe for all concerned and as business requires.

## *Chapter XV*

# *What Each National Bank Does*

*It goes right on doing business without apparent change  
It joins its clearing house and zone league  
It puts up with the zone league a reserve of 7 per cent in gold  
It maintains in its own vaults a cash reserve  
It may issue credit currency, subject to a tax that makes such  
currency cost the bank same as individual deposits upon  
which 2 per cent interest is paid  
It may dispose of its 2 per cent government bonds at par  
It may use its vault reserves temporarily, provided their average  
for the year comes up to the required standard  
It may expand and contract its reserve within safe limits  
It may transact savings and trust business*



Doing Business as Usual

**N**OW that the co-operative federation of banking power has been provided for, through a scheme of organization that is representative of every interest and protective against abuse of privilege, let us consider the function of each constituent thereof.

In speaking of what the bank does, reference is had only to national banks having \$25,000 or more capital and operating for commercial purposes with or without savings departments. The little people's banks, suggested in Part V, are not referred

to in this chapter, as they have not the note-issuing power until they attain \$25,000 capital.

## *State Banks Provided For*

Each state bank or trust company which does a commercial banking business may not enjoy currency issue, but may secure

all the other advantages of this method by the means set forth in Chapter XVI.

Each bank which is a member of the clearing house, zone league and American Reserve Union, may state that fact in all its literature. Such connection will soon come to be recognized by the public as a guarantee of solvency, strength and enterprise. Together with the many other advantages incident to membership in the American Reserve, every state bank admissible to it will be drawn by self-interest into the American Reserve Union, whether the bank is incorporated under national or state law.

First of all, it will be observed that each bank continues its regular business in the regular way, without interruption or interference. Neither employees nor customers will have occasion to realize that any changes have been effected, except that now accommodation will be more steady, fluctuations in money rates and supply less severe, all industry will go along in a healthier way. Just what each national bank will do, by my method, are the following:

### ***Each Bank's Reserve in Gold***

1. Each national bank joins its local clearing house, as narrated in the next chapter.
2. Each national bank joins its zone league, as described in Chapter XVII.
3. Each bank deposits gold in the treasury of its zone league to the amount of 7 per cent of said bank's "average deposits during the preceding six calendar months, and in addition thereto 7 per cent of the national bank notes it has or proposes



EACH BANK, BIG AND LITTLE, IS BACKED BY GOLD



to take out for issue and circulation." This gold shall be subject to the control of the American Reserve Union, as described in Chapter XVIII. Each bank maintains with the league this proportionate reserve in gold, as the bank's liabilities increase or diminish.

4. Each bank also carries in its own vaults a reserve in gold or government money, not national bank notes or any form of credit instruments, equal to "6 per cent of all its individual deposits subject to check up to \$6,000,000, and one-half of 1 per cent additional for each \$500,000 up to \$10,000,000, and upon this latter amount and all additional individual deposits a reserve of 10 per cent" in such cash. Against deposits from other banks or balances due them, each bank shall carry a reserve in such cash of 20 per cent.

### ***Tax on Circulation***

5. Each national bank shall pay to the American Reserve Union a tax equal to 2 per cent per annum upon such bank's average circulation of credit currency (national bank notes) for the preceding six months. From this tax an amount equal to 5 per cent of all bank notes outstanding shall be held in the American Reserve Union as a redemption fund with which to redeem the notes of any failed bank. The other proceeds from this tax shall be used (*a*) for paying all expenses of the zone leagues and American Reserve Union, (*b*) for defraying any ultimate losses they may incur, and (*c*) for the other purposes of the American Reserve Union (see Chapter XVIII).

6. Each bank may take out credit currency—that is, national bank notes—to an amount not exceeding its unimpaired capital, but only when it is prepared to redeem same in gold or government money over its own counter, also through a national bank in its redemption city, and through its zone league. Such issue may be made only when approved by the comptrollers of the zone league, who will approve only when satisfied that the bank is sound, and that it has sufficient cash reserves in its treasury. The redemption fund carried in such redemption bank, or in the zone league, may be counted as a part of the bank's required cash reserve. The amount of credit currency required

will be vastly less under this method than at present, while the problem of adequate reserves is also settled upon a sound basis.

7. Since an average of about 70 per cent of the national bank notes have been redeemed annually under the old system, the obligation to redeem its currency on demand over its own counter does not add much to the bank's burden. The fact that the national bank notes continue to pass current at par would in no way give them permanency, because it costs the bank receiving them nothing for transportation by mail or express to the redemption city or zone league, where they must be redeemed in gold or lawful money. This cost, like all other expenses of the Fowler system, is defrayed out of the tax on circulation. By this device the note circulation will tend to be restricted more and more within the territory of the bank of issue.

The 2 per cent tax is but slightly more than the present  $1\frac{1}{2}$  per cent tax on notes secured by 3 per cent bonds, which is the relative equivalent of the  $\frac{1}{2}$  per cent tax on 2 per cent bonds. The advantages to banks and public involved in the new method should make both favor this tax. After the admirable purposes are accomplished for which the tax is imposed, as set forth in Chapter XIX, public opinion may assent to its reduction or abolition.

8. Each bank may sell its government bonds in the open market, or "put" them to the United States, as described in Chapter XIX, and the gold or government money received therefor may be counted in the bank's cash reserve. My recommendation upon this point is of fundamental importance, as it also enables the bank to get back bonds on a 3 per cent basis when money cannot earn the bank more than that rate.

### ***Expansion and Contraction of Reserves***

9. Any national bank may at any time fall not to exceed 50 per cent below its required cash reserve, provided its average cash reserve for the twelve calendar months shall equal the required total. Failing to do this, the bank must pay into the American Reserve Union a penalty tax equal to 10 per cent per annum upon all loans made in excess of such required average reserve for the year.

If a bank is required to have an average reserve of 14 per cent, which falls to 7 per cent for six months, then the bank would have to carry 21 per cent reserve for the remaining six months to bring its average for the year up to the required 14 per cent. Failure so to do would oblige the bank to pay what is almost a prohibitory tax upon all loans it had made that were not "covered" by the required reserve.

Fowler is right in saying "there must be opportunity for reserve expansion and contraction, as well as of currency expansion and contraction, to meet the varying needs of business." The purpose of a reserve is use, not disuse; it is a surplus laid by for a rainy day, to be employed only when the storm comes, and to be restored when the storm has blown over. Under the present system, this is not possible—stringency or panics may occur just because the banks cannot use their reserve, although it is accumulated for that very purpose!

On the other hand, law and custom must compel reserves to be fully restored as soon as possible. If a bank fails to bring its reserves up to the average standard required for the year, it will be only because of some extraordinary demand from its customers, for which service they could amply afford to compensate the bank for the tax imposed upon it in consequence thereof. Such a tax would prevent any undue or unsafely prolonged over-expansion.

### *Advantages to All Concerned*

10. How the banks may secure the money (gold and government notes) which alone may constitute their reserves plainly appears from Chapter XIX.



Banker to Depositor: "Oh, yes, we pay 2% on checking accounts, and find it is good business to do so, same as is the rule in other countries."

Uncle Sam to Banker: "Good! Then you pay me 2% on the deposits I permit you to create, in the form of your own bank notes or credit currency."



11. Each bank is now able to better serve its customers, and to insure against the evils incident to the many and serious defects under the old fiscal system. Risks and losses are reduced, the banking business becomes steadier and safer, and if its profits are not quite as large in some years as heretofore, neither may they be as small. Their net gains for the ensuing ten years will compare favorably with the past decade, but the ensuing period in business will be free from the terrific ups and downs of industry during the past twenty years, and free from the past's awful harvest of death in the banking business.<sup>7</sup>

### ***Other Benefits***

12. Each national bank may conduct, as wholly separated departments, a savings bank business or a trust company business, subject to the laws of its state regulating such business, or, in the absence thereof, subject to the regulations of its zone league. The land bonds described in Part Six shall be a legal investment for any funds of the bank.

Each bank shall maintain with the zone league a money reserve equal to 5 per cent of said bank's savings and trust deposits, to be invested by the league in government, state or land bonds for the sole benefit of the original depositors and without any deduction for expenses.

No national bank may hold deposits of all kinds making a total in excess of ten times its unimpaired capital stock.

### ***Consideration of Reserves***

One vitally weak spot in our banking system at present is the (a) inadequacy of reserves of lawful money held by the average bank for the security of its depositors. This lack of reserves is to be provided for, as well as solving the problem of mobilizing the gold reserves. Both these defects must be remedied forthwith, but only the former is discussed at this point.

\* We have compiled Table A (see Addenda, Part Seven) to show the relation of national banking reserves to demand liability

ties. It shows that national banks have total reserves of 934 millions. They now (September, 1912) owe net to state banking institutions 874 millions. If accounts were squared between the two classes, nationals would have left only 60 millions of cash against nearly 6,000 millions of individual deposits. The demand liability increases to nearly 6,700 millions by adding the bank notes outstanding.

To be sure, loans and discounts slightly exceed deposits, and other assets are ample, but the actual cash reserve in lawful money after settling with state banks is less than 1 per cent of individual deposits. A dozen years ago, such *net* reserve was relatively *four times* as great as it is today! Some of our charts throw a flood of light on the various relations of reserves to business.



In Union There Is Strength

### ***Proof of Strength***

The present *gross* cash reserves of 934 millions, however, are 14 per cent of total demand liabilities, compared to 19 per cent a dozen years since. During this interval, there has been a steady decline in both gross and net reserves. The greater strength which partly offsets this weakness in reserves is the fact that working capital (that is capital stock, surplus and undivided profits) is now relatively much larger than in 1900. It is now almost 50 per cent of demand liabilities, whereas then it was hardly 40 per cent. The general position of the banks is much stronger therefore, but the weakness lies in the paucity of cash reserves.

This can only be remedied in a sound way as outlined in Chapter XIX. The nationals may not safely continue to borrow all the legal tender possible from state banks. That policy explains why redemptions of national bank notes have jumped

from 35 and 40 per cent, a dozen years ago, to 70 per cent and more of late years. The need for more lawful cash reserves is felt by all classes of banks. Berry<sup>8</sup> computes that in 1910 the nationals held a trifle more than 12 per cent against their deposits, state banks 6.4 per cent, savings banks 0.9 per cent, or an average of only 8 per cent for all forms of deposits combined. The panic of 1873 was coincident with a drop to 12 per cent in cash reserves to demand obligations, the panic of 1883 found the reserves down to 10.6 per cent, while the panic of 1907 came at a time when reserves stood at only 8 per cent for all banks.

Despite this weakness, however, the situation of reserves is inherently much stronger in the United States than in the United Kingdom. For our reserves of actual gold are relatively more than double England's. We have about 13 cents in gold for each dollar of our loans and discounts to Britain's six cents—an amazing fact here first revealed.



WHAT HAPPENS WHEN THE BANK "GOES BROKE"

is conclusive evidence of the service performed for the people by any bank that is efficiently conducted.



## *Chapter XVI*

# *What the Clearing House Does*

*What the clearing house is*  
*The economy it effects*  
*Outside the pale of law*  
*To be incorporated under the federal act*  
*Membership liability*  
*Affiliation with zone league*  
*Operation of the clearing house*  
*Work of the departments of clearance and collection*  
*No charges for collecting checks and drafts*  
*Supervision and inspection*  
*The department of loans*  
*Clearing house certificates or gold for emergencies*  
*Other helpful activities*



"Clearing" the transactions of the day

ETHER through oversight or design, a most useful adjunct in the facilitation of exchange has been disregarded in the various schemes for banking reform hitherto suggested.

The institution referred to is a strange anomaly, in that it has no corporate form, usually has neither asset nor liability, yet performs daily an indispensable function of universal service. Operating outside the pale of law, its great

powers are exercised, subject to no legal or public supervision, regulation or control, by a small committee chosen by a majority of its own members! It is more than half a century old, is widely established, and without its services the present method of exchange would be well-nigh impracticable. In periods of financial stress, it has helped to avert panics. Yet while so useful to the public, at times it has assumed to tax the public by

fixing the rates that banks charge for their services, and hence may even have committed conspiracy in restraint of trade!

### ***What the Clearing House Is***

This remarkable institution is the clearing house. Nowhere in the world is the clearing house so highly perfected as in the United States, but even here it is only in the infancy of its usefulness. The fullest use of an institution of such proven value must be an all-important feature in a more effective fiscal system.

The clearing house has been plainly described as "a device to simplify and facilitate exchanges of items (checks, drafts, etc.) and settlements of balances among the banks, and a medium for thoroughly united action upon all questions affecting their mutual welfare." One of its functions has been more fully described in a decision of the Pennsylvania Supreme Court:

"It is an ingenious device to simplify and facilitate the work of the banks in reaching an adjustment and payment of the daily balances due to and from each other, at one time and in one place on each day. In practical operation it is a place where all the representatives of the banks in a given city meet, and under the supervision of a competent committee or officer selected by the associated banks, settle their accounts with each other and make or receive payment of balance and so 'clear' the transactions of the day for which the settlement is made."

### ***The Economy It Effects***

The marvelous economy of the clearing system is shown by the fact that out of the billions in value and millions in number of credit instruments which are "cleared" through the New York clearing house, an average of less than 5 per cent of the total amount has to be paid in cash or its equivalent. This means that at that clearing house, each \$100 of claims or checks *against* any bank may be offset by other claims and checks in

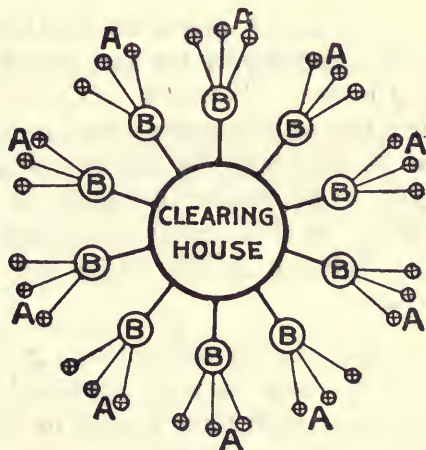
*favor* of the same bank to the amount of \$95, leaving only \$5 to be paid in cash or its equivalent. Occasionally the matching of credit instruments against and in favor of any one bank are practically equal: in one instance, there was a balance of but a single cent in the day's total clearings at New York!

"The speed with which these clearances are effected seems almost incredible. The daily clearances in New York have reached 700 million dollars, and exceed an average of 300 millions, yet this enormous amount of paper is exchanged between the banks in ten minutes, and often in less time." Mere words could not emphasize the marvelous ingenuity, efficiency and usefulness of the system!

### *Outside the Pale of Law*

One cause that led banks and public to unite in repudiating the Aldrich plan was that it fails to include the clearing house as an integral part of that plan, and also left this institution to continue without legal status. Not a word in behalf of the legal incorporation, public supervision or official regulation of the clearing house is uttered in the Commission's report upon the subject, nor in any of the current discussions by the advocates of that plan. However, one of its chief spokesmen has made the brief and inconspicuous but distinct admission that "what the clearing house has lacked heretofore is (a) legal sanction and recognition as a permanent institution, and (b) legal oversight and restraint."

The absence of legal standing for the clearing house has gone to the extreme of action by Congress authorizing emergency currency associations to do work that has



CLEARING HOUSE

Each national or state bank having not less than \$25,000 capital (shown above by B) may join the clearing house in its locality. The smaller A banks are those which have less than \$25,000 capital, including the little people's co-operative banks to be incorporated under federal law. Each A bank "corresponds" with at least one B bank, and thus becomes part of the whole system.



been better done voluntarily by the clearing houses, though without sanction of law! The Aldrich-Vreeland act is another instance of inefficient patchwork. Eighteen associations have been formed in accordance with its terms; they expire in 1914.

The comptroller of the currency truly says that "one of the greatest forces in this country today for safe and conservative banking is a well-organized clearing house association," but even he fails to point out the necessity for its incorporation, supervision and regulation.

### ***Incorporated Under Federal Law***

Each clearing house now in existence, or organized hereafter, should be incorporated only under national law, in order to secure the largest uniformity and efficiency. There should be an unwritten understanding between the states that no clearing house shall be incorporated under state law so long as these national clearing houses afford the same security and conveniences to state banks as to nationals.

Any new monetary legislation by Congress should provide comprehensively for the incorporation and conduct of the clearing house. The law should protect each of the member-banks and the public against any undue assumption of power or abuse of its privileges by the clearing house, and yet should not interpose unnecessary obstacles in the way of the largest possible utility of this remarkable institution. It should be an agency through which the banks may "unite to assist, not combine to injure."

It must be subject to rigid supervision by public authority, and be held strictly amenable by the courts. Each clearing house in each state should be subject to examination by the zone league's inspection system, of course under the regulations of the United States treasury department.

These methods will avoid many of the criticisms which have been brought against the clearing house, and will enable it wisely to fulfill its manifest destiny. For it is to perform functions as

new, important and beneficial as was the reform effected when the New York clearing house in 1853 was substituted for the cumbrous former system of sending collectors from bank to bank.

### ***Membership Liability***

The territory covered by the clearing house should be a single large city, or in the case of smaller communities, an area containing not less than ten banks. All national banks within said area having not less than \$25,000 capital, should be required by law to join the clearing house. All state banks or trust companies within said area, which have a paid-in and unimpaired capital of not less than \$25,000, and that agree to the same clearing house provisions as are applied to national banks, may be admitted by two-thirds vote of the present members. Right here begin the same privileges to state banks as to nationals, and on a basis so attractive that every state banking institution that does a commercial business will be compelled by self-interest to join the clearing house, the zone league and the American Reserve Union.

Each member bank shall subscribe to the by-laws of the clearing house, and contract to live up to all the obligations imposed thereby.

Upon being admitted to membership, each bank shall pay in a suitable sum, which should go into the reserve fund of the clearing house. The annual dues from each bank, assessed ratably upon its capital and surplus, should be ample to defray all expenses of the larger work the institution is to do.

Each bank shall receive a non-transferable certificate for its share in the clearing house, and shall receive back in full its admission fee in case it liquidates, but if it is expelled from the clearing house for cause, then the membership fee is forfeited by the expelled bank.

Just as each shareholder in a national bank is liable to the extent of twice the par value of its shares he owns, so may each bank be liable to the clearing house for double the sum of its admission fee and dues. Each member-bank shall also be liable

for such further assessment, if the amount just named is insufficient, as may be required to make good any obligation of the clearing house. Such obligation shall be a prior lien on the assets of each bank.

This proviso will be resisted in some quarters, but mature consideration may lead to general approval of it, since it lies at the very root of the co-operative idea—"union for the good of all."

The member-banks are not jointly and severally liable for all the debts of the clearing house, but by their membership do contract to stand their individual proportion of any assessments and ultimate loss, so that the clearing house reserve may be restored promptly to its former position following its use in an emergency.

### *Affiliation with Zone League*

Each clearing house in a zone chooses one banker-member, also one customer-member, to represent it in the "zone clearing house committee." The chief thereof shall be employed as an assistant comptroller in the zone league.

In this way, the peculiar interests of the clearing houses may be adequately represented in the administration of the zone league. Otherwise, the clearing house has no vote in the zone league, for the reason that the latter is composed directly of the individual banks which also compose the clearing houses.

Each bank thus maintains its individual membership in its clearing house, and also in its zone league. This preserves the independence, separate entity, and freedom of action, of each bank in its relations to both the zone league and the clearing house. These precautions are essential, and avoid the over-organization and further-removal of each bank from the zone league, which would follow if the latter were composed of representatives from each clearing house instead of from each bank. On the other hand, all the clearing houses are directly associated in the zone league through their active representative therein, while their members also collectively constitute the league.

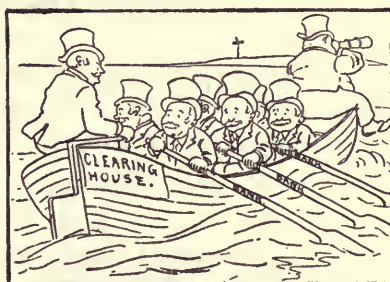


### ***Operation of the Clearing House***

The members of the clearing house—one banking-member and one customer-member from each bank—shall elect its officers and administrative committees. Each of the latter shall consist of five members, two chosen from and by the banking members, two chosen by and from the customer members, and the fifth selected by majority vote of these four. This insures the full, fair and adequate participation in clearing house management of both these interests. Suitable rotation in these offices may be provided for.

Each bank having two equal votes, and also being a member in and guarantor for the clearing house, each and all the banks would give this local association the oversight required to secure its largest efficiency.

Through its various departments, each presided over by a committee selected as aforesaid, the clearing house may become more serviceable than has even been dreamed of in the past. Constituted as described and subject to public authority, it may be trusted safely and wisely to increase its efficiency through vastly improved service.



All Banks Now Pull Together

### ***Work of the Departments***

The department of clearings will improve upon and enlarge the efficiency of the clearance system. In addition to the clearing of checks, drafts and similar credit instruments, eventually it may be possible to devise a scheme whereby the clearing house may be an agency for the balancing of accounts payable and accounts receivable, between individuals, whether persons or corporations. The possibilities of this suggestion are alluring; its successful application would promote trade enormously and would be a novel development of the science of exchange.

The department of collections will grow in usefulness. Through the affiliation of each clearing house with the zone league, and the latter with the American Reserve Union, it will be possible to simplify much the exchange and collection of credit instruments.

Most of the work, time and expense now involved in handling checks from other points, may be avoided. Then even the "country check," which metropolitan banks now affect to disdain, will partake of the nature of a draft. Already the system is perfected whereby any New England bank in good standing issues its checks payable at par through the Boston clearing house, and other sections are aiming at the same result.

### *Checks Free of Collection Charges*

The collections committee may not seek to fix rates illegally nor conspire to tax customers unduly. This was done at one time by the Buffalo clearing house in such a manner that

The "increase on the profits of collections, to the twelve banks interested, over the former methods of doing business free of charge, paid the dividends of all the banks each year, and whatever profits were made on loans and discounts were used to build up the surplus."<sup>9</sup>

Such "uniform rates" were an added tax or imposition upon banking customers, and all such charges should be eliminated so far as possible. A bank is entitled to a fair return for its labor, and so is the clearing house, but that is no justification for conspiring to take advantage of customers. Does the collection tax of one-tenth of one per cent imposed upon country checks by the clearing house in a few big cities, partly explain the latter banks' huge profits, as was the case in Buffalo? Is not such a tax a conspiracy in restraint of trade?

The claimed justification for the tax is the cost of the service performed. But by the organized method now proposed, all exchanges of checks, drafts, etc., will be so reorganized and simplified that each clearing house and each bank will perform

this service without charge to others, because it will be a small task compared to the present. It is to be a mutual service for mutual benefit, but so perfected as not to be a hardship to any. This will be an important feature of the better service which will make banking more useful to the public and sufficiently profitable to the banks.

"The better the service to customers, the better the safe profit to the bank."

### ***Supervision and Inspection***

Right at home where each commercial bank is established, located and doing business, is the place to begin such a close supervision of banks and banking corporations, that failures and dishonesty shall be well-nigh impossible. Since each and every bank in the clearing house is vitally affected by the inability of any one bank to meet its obligations, each bank has paramount reasons for insisting upon a method of bank examination and supervision so perfect and so thorough as fully to protect all the banks concerned, as well as all their customers.

The object is not to expose the private affairs of one bank to another, nor to hamper the banks in any way, but

"to prevent them from taking undue risks in order to secure high rates of interest, or go into underwriting schemes of a questionable character, or allow directors or officers of an institution loaning the bank's funds to corporations in which they are interested, provided they are not well secured; also to prevent firms and corporations securing larger lines of credit than they should be entitled to, based on their assets, and to enable the banks to check up firms, individuals or corporations that make false statements."

Each bank should be obliged to submit to examination from only one authority, but that inspection should be so rigidly thorough as to make superfluous its being done over again. Therefore, the Fowler idea is right of centering all bank inspection in the zone league, as described in the next chapter.



But in this work of bank examination, the department of supervision in each clearing house may be of large assistance.

### ***Loans and Certificates***

The clearing house may be legally authorized to issue clearing house certificates, under well-defined restrictions that shall compel their retirement promptly upon the passing of the emergency that gives rise to them. The certificates are to be used only between banks and the clearing house, for the settlement of balances, and shall never get into circulation. This is as far as it is necessary to go, for our method automatically expands credit currency and money volume as needed, and as automatically contracts both when not required. Repeal the Aldrich-Vreeland act.

Advances to any member-bank of funds from the clearing house reserve, or of the clearing house guaranty upon any bank's paper rediscounted, or the issue of clearing house certificates, would be made only upon vote of nine-tenths of all the banks in the clearing house. The committee on loans would have charge of all details of carrying out such votes.

### ***Helping Its Members Out of Trouble***

Only in emergencies would a bank apply to the clearing house for assistance. Under ordinary circumstances, the bank would get all the accommodation it wants directly from the zone league, at a moment's notice and without any trouble or expense to either party other than the established rate of commission to the league.

In case a bank feels the need of rediscounting more of its assets than the zone league is willing to accept without additional security, such bank may apply to the clearing house for a guaranty of the commercial paper which it desires to rediscount at the zone league.

Any such bank receiving such guaranty shall pay a commission therefor to be fixed by the directors of the clearing house. Expenses and losses

in excess of commissions shall be met by an assessment of the members of the clearing house, in proportion to the ratio which their capital and surplus bear to the aggregate capital and surplus of the members of the clearing house, which assessment shall be made by the board of directors, and the commission received for such guaranty, after the payment of expenses and possible losses, shall be distributed among the several banks in the clearing house, or may be retained in whole or in part as a surplus fund for protection in the case of future guaranties. The clearing house shall have authority to require security from any bank offering to take up a guaranty, or it may decline to grant the application. The total amount of guaranties by a clearing house shall not at any time exceed the aggregate capital and surplus of all the banks in the clearing house.

The foregoing differs from Section 20 in the Aldrich bill in permitting the clearing house to establish a reserve, in using the clearing house instead of Aldrich's local associations, and in making this guaranty come only after the bank may have secured as much help as it can get from the zone league without additional security, and in having the relief come direct from the zone league, rather than from the American Reserve Union.

Through its loan committee, the clearing house would act in obtaining gold from the zone league with which to tide over any bank that otherwise might not be able to get enough gold at the moment needed.

### ***Other Helpful Departments***

The department of arbitration may settle most of the disputes between bankers, or between any bank and its customers. It will be a board to which any locally interested party may appeal. If it acts wisely, this feature will satisfactorily adjust a large proportion of the cases that now go to the courts. What a saving in time, feelings and work! The perfection of this idea lies in the right of any bank, clearing house or individual to

appeal to the zone's governing council as a board of adjustment of differences.

Many other means will develop whereby this local union of banks and banking customers, which is named the clearing house, may largely benefit. It should have a committee charged with advising and teaching the smaller A banks, so that the latter may feel they have friends near at hand to consult with.

As a union in time of stress and trouble, of all the local banks within its bailiwick, the clearing house can be of large service. The various ways for so doing will suggest themselves as experience points out their need.

But neither the statutes nor the by-laws should restrict too closely the activities in these respects of the institution or of its constituent banks. Avoid all unnecessary details in laws, banish bureaucratic routine that interferes with business, abolish superfluous redtape. The present craze for "regulating" every detail of business is simply an expression of the need for righteousness in management and efficiency in supervision, which are so well provided for by the method set forth in this work.



THREE HARBORS OF REFUGE FROM THE STORMIEST OF SEAS

In the stormiest of seas, all banks will have three lighthouses showing the way to a safe harbor. The outer light is the clearing house, next is the zone league, and last the American Reserve Union. They each afford a harbor of refuge for the bank, whether it is a little co-operative people's institution, or a small state bank, a bank of medium size, or a big bank.



## **Chapter XVII**

# **What the Zone League Does**

***An agency whereby banks perform better service***

***It does no business with the public***

***It is not even run for profit***

***A co-operative league for the common weal***

***Legal status of the zone league***

***The free gold reserve***

***The banking reserves***

***Mobilizing cash and credits, yet co-operating to keep them  
always available***

***The savings and trust reserve***



THE zone league is not a bank, so far as the public is concerned, and does no business whatever with the public. It does not usurp the business of any existing banks, either with the public or with other banks. On the contrary, the zone league is an agency whereby the banks may better serve each other, and therefore better serve the public and general industry.

It is not a trust nor combine controlled by a few big banks, but the zone league is a representative democracy of all banks and of all users of banks, within its territory. It operates for the common good of all, and in emergencies is a source of strength to each bank that may need help. It may afford "clearances" between banks, clearing houses and other zones.

### ***Co-operation for the Common Weal***

It is not even run for profit to itself, all operating expenses of the zone league being paid from the tax on circulation. It has no capital stock, but does enjoy the use of the gold reserve or

other deposits placed with it by its member-banks, subject to the American Reserve Union's control of the gold reserve. Whatever profits arise from the business conducted by the zone league, after setting aside such proportion thereof for additional reserves as the governing council may direct, may be apportioned as a profit-sharing dividend upon the custom received from member-banks.

The zone league, therefore, is in fact as in name, a co-operative league of banks and banking customers upon a basis of democratic representation—not for profit, but for the common weal.

### ***The Legal Status***

To paraphrase the Fowler and Aldrich bills:

Section 24. Each zone league shall have all the attributes and powers of a body corporate, and may sue and be sued in any United States court having jurisdiction of the action brought. It shall have power to receive, collect, and forward bank notes, to buy and sell commercial paper and bills of exchange from and to the banks which are members of such zone league, and to act as the agent or attorney in fact of the banks which are members of any of the zone leagues, so far as it may be necessary to do so to carry into effect the purpose of this organization. It shall have power to do and perform any and all acts that may be necessary for the proper performance of its duties in the supervision of all banks under it, and in the conduct and operation of the bank-note redemption agency.

### ***The Free Gold Reserve***

Each zone league is the custodian of the gold reserve deposited with it by each member-bank to the amount of 7 per cent of said bank's individual deposits and credit currency.

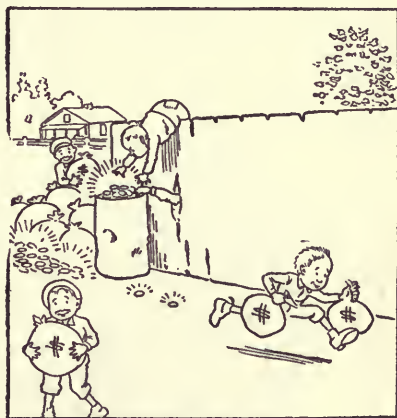
This is the free gold reserve. No obligation is outstanding against it, other than the league's receipt to the depositing bank to return the gold in case the bank liquidates, less whatever it owes the league or the American Reserve Union.

This free gold reserve is subject to the control of the American Reserve Union, as described in the following chapter. It may also be employed by the league for loan to any bank within the zone that may require gold, upon deposit with the league by such bank of ample collateral in the form of short-time soon-to-come-due commercial paper, indorsed by the bank and if necessary guaranteed by its clearing house—all under such conditions imposed by the league as shall insure prompt return of the gold to the league's treasury, and all subject to the approval of the league comptrollers.

### ***The Banking Reserves***

In addition to the free gold reserve described, the zone league may receive from each member-bank other deposits. This is called "the zone league's banking reserve."

These funds may be employed by the zone league in the purchase of gilt-edge commercial paper or bills of exchange guaranteed by a member bank, and having not more than 90 days to run. If such paper or rediscounts for its member-banks, do not satisfactorily employ all the league's funds, it may purchase similar paper from other zones, or may deposit with the American Reserve Union.



Free Gold Reserve

In this way, the banking reserves may be mobilized to the best advantage, yet will be in liquid form, so that each bank may get same on demand. Where money is scarce and accommodation high, the banks will rediscount freely with the zone league, which will thus employ the funds deposited with it from banks that have a surplus.

In case the zone league is not able to meet all demands, it will apply to the American Reserve Union, as described in the next chapter.



The 5 per cent gold savings and trust reserve, placed with the league to protect such deposits in its member-banks, shall be invested in national bonds, or partly in the bonds of any state lying wholly or in part within the zone, and also in the bonds of any land bank therein.

Here we have decentralization of cash and credits, yet co-operation in their use whenever and wherever needed for productive and distributive purposes. How beautifully effective, compared to the inefficient system which now concentrates reserves for gambling on the stock exchange!

### ***A Thorough Method of Rigid Inspection***

One of the chief functions of the zone league is the inspection of banks. Each member-bank shall be subject to inspection by the comptrollers of the zone league, or their assistants.



**Rigid Inspection**

The chairman comptroller being a United States deputy comptroller, the examination of banks will therefore be conducted by a combination of all the authority vested in the United States treasury department and all the facilities and powers enjoyed by the zone league. All the leagues being joined into the American Reserve Union, the experience of inspectors in each league will be available to all.

Needless to say, the inspection, examination and supervision will be of the most rigorous, searching and rigid description. It will go through each and every bank with a fine-tooth comb. Nothing will be overlooked, nothing neglected, no mere "explanations" accepted, but everything will have to appear in black and white to the satisfaction of the examiners.

These men will be the most highly trained experts available. They will have neither friends nor enemies, and will not be

interested in any bank or affiliated with the officers of any bank. They will be wholly fair, impartial, thorough, disinterested. They will require the presence and active participation, in their inspection, of the officers and of all the directors of each bank, so far as the examiners think wise.

The work will be even more perfect than is the inspection of banks conducted by the New York and Chicago clearing houses, which has received the highest praise. This method possesses the further advantage of being applied by experts whose work is not influenced by local considerations, and who will not "give away" any of the information.

Each report shall be made in triplicate, the original being sent to the comptroller of the currency in the United States treasury department at Washington, a duplicate being filed with the zone league, and the triplicate given to the bank itself. This method will secure equal efficiency in bank examination throughout the United States, in country as well as in town. Injustice to any bank will be guarded against by permitting it to appeal to the governing council of its zone.

Public confidence in the whole banking system will be stimulated by the most perfect bank supervision that human ingenuity can devise. Therefore there will be general approval of this plan, by banks and public. The following opinion expressed by the comptroller of the currency will doubly apply to an inspection conducted as above described:

"Every one of the objections always urged against a clearing house examiner was used before these clearing house associations adopted the plan, and every single one of the objections, by actual experience, has fallen to the ground. The fact is that no real argument from any angle can be made against the wisdom and efficiency of such a plan of supervision. Give to the state supervisors of banks all the power they ask; give to the comptroller of the currency all the power he may want, and then let each select the very best examiners available, and, even with these ideal conditions, an effective clearing house association, with an efficient clear-

ing house examiner, will be by far a more potent factor for sound banking in the community than either or both combined."

One of the conditions of membership being that every bank shall submit to the American Reserve Union's system of inspection and live up to its standard of doing business, this will put state and national banks on a par as to stability, and will insure uniform efficiency in their inspection and supervision. Each member-bank will be subject to one inspection per year, or oftener if necessary, but *only one*—that one will be thorough, complete and rigid beyond precedent. National, state, clearing house, league and American Reserve Union inspection, will be consolidated into one perfect system.



No More Receivership Extravagances

### ***Receiverships***

In case a member-bank fails, or gets into serious trouble, so as to require being placed in the hands of a receiver, the controllers of the zone league shall be appointed receivers thereof. They shall serve as such without any extra compensation.

This will provide for the economical administration of the receivership, as well as the largest ability and best facilities in closing out the assets in the interest of the creditors. Such reform will prove invaluable.

### ***Relations to American Reserve Union***

Each league has one representative and one vote in the American Reserve Union at Washington, as described in Part Three. The latter has general control over the league, and specific and exclusive control over the free gold reserve deposited with the respective leagues. The union's powers thus include supervision and inspection of the respective leagues, and the league supervises the clearing houses in its zone.



### ***The Governing Council***

It will be noted from Chapter XI that while the administration of the active affairs of the league is in charge of the seven comptrollers, as a body of experts chosen only by the banking interests, there is a governing council composed of one customer-member and one-banking member from each district assembly in the league.

The governing council has general supervision over the league, and acts as a board of appeal. In case circumstances require, the council may appeal to the American Reserve Union, or appeals from the governing council may be taken up to the union by any individual or bank. In this way every safeguard would seem to be assured to public and to banks.

### ***The Zone Does Not Limit Any Bank***

It should be distinctly understood that the boundary lines of each zone do not in any way confine within such limits the activities of any bank therein. The only vital limitation is that the city which is the headquarters of the zone league shall be the city at which shall be redeemed any credit currency of any bank within the zone which may not be redeemed over its own counter.

The boundaries of each zone should include areas that embrace substantially an equal number of banks in each zone. There will soon be upward of 35,000 banks in the United States, the number now being about 30,000. About half of the present number of banks are institutions having \$25,000 capital or more, all of which would be eligible for membership respectively in their clearing house and zone league. This would allow about 300 of such banks to each of the 42 zones. Each of the seven districts in such zone would therefore contain an average of about 43 such banks and many smaller ones. These details could be worked out, on an equitable basis, by the special commission appointed for the purpose by the President.

It should be reiterated that the purpose of the zone is not to prevent any bank therein from in any way doing business in other zones or sections. The zone is simply a convenient size for a representative league, without interfering with the independence or activity of any member-bank in the zone league.



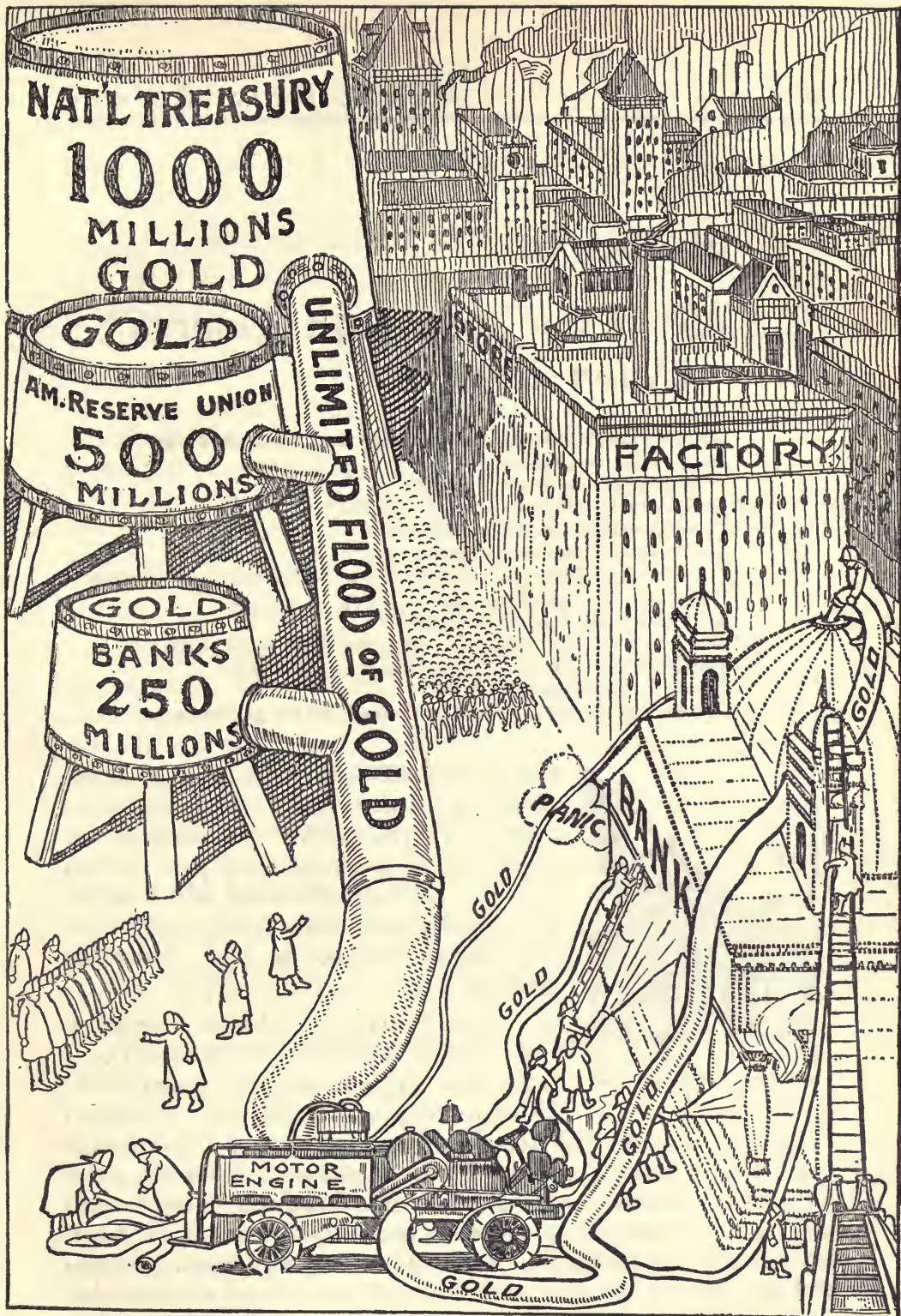


**IN THE PAST—PANICS SWEEP THE COUNTRY LIKE AN UNRESTRAINED CONFLAGRATION**

Why? Because bankers and business men are not organized to prevent panic. Each one "hogs" their gold and reserves in nameless fear, while the panic spreads with irresistible intensity. What efforts are made at last to put out the fire,

are as utterly ridiculous and ineffective as the old-fashioned hand-engine, no water supply, and an unorganized mob are powerless before a San Francisco disaster. But all the panics we have had may now be insured against by the Myrick method.





**IN THE FUTURE—THE FIRE OF PANIC IS EXTINGUISHED ALMOST BEFORE IT STARTS!**

By the Myrick method, each bank, its management and clients, become one unit in a perfect organization, always mobilized for instant action. With triple reservoirs, containing an unlimited supply of ever mobile gold, and equipped with the latest up-to-date types of panic-fighting apparatus and

engines, an overwhelming flood of gold, backed up by public confidence, absolutely smother the least suspicion of panic or distress before it can get any headway whatever. This is not fancy—it can be actually realized, to the immeasurable benefit of all the people all the time.



**Chapter XVIII*****What the American Reserve Union Does***

*Affords centralization of reserves and their mobility*  
*Decentralizes credits*  
*Popularizes the money power*  
*Preserves the independence of banks*  
*Insures manhood above money*  
*Incorporates under national law*  
*Controls free gold reserve, protecting banks and public credit*  
*Fixes the rate of discount*  
*May buy bills and rediscount*  
*Performs other duties, but does not deal with public*  
*Facilitates transfers of credits and exchange*  
*Supervises the zone leagues*  
*Acts as fiscal agent for the United States government*



CO-OPERATIVE federation of bank-users and bank-owners, with its thoroughly representative organization as described in the preceding part of this work, is a democratic body which safely may be intrusted with powers ample for its largest service to the American people.

Independent of political manipulation, it is yet subject to congressional control and to government supervision.

Without capital stock, the American Reserve Union, nevertheless, is an association with invulnerable powers as a going concern. Farthest removed from the principle of an arbitrary central bank, it still affords every citizen all the advantages of co-operative mobilization of all the fiscal resources of the public, the banks and the government. It centralizes reserves, and makes them usable where and when needed

(mobilization), while decentralizing credits and popularizing the money power.

### ***Preserves the Independence of Banks***

More than all, the American Reserve Union is the capstone to America's fiscal system. It is built up from the people, through their (a) little co-operative banks, (b) national and state banks and (c) zone leagues.

Each institution in each of these three classes is more independent than ever, and their manipulation contrary to public welfare is guarded against, yet they are enabled to co-operate safely and efficiently for the common good, and the American Reserve Union becomes the final embodiment of the collective powers of people, banks and leagues.

### ***Insures Manhood Above Money***

Growing *up* from the people, it is diametrically opposite to the national reserve association in the Aldrich bill, which came dangerously near to being a central bank with autocratic powers *over* the people. The latter appears like a despotism that might or might not autocratically confer favors or impose burdens upon the people; the American Reserve Union is a representative financial republic of, for and by the people. It is typically American and republican; the Aldrich scheme was typically monarchical and despotic.

The American Reserve Union is the final expression of American manhood controlling the dollar; the Aldrich bill was capable of insuring capitalistic control of humanity.

### ***Incorporated Under Federal Law***

The new measure which forthwith should be submitted to the Congress for the comprehensive fiscal method outlined in this work, may provide for the incorporation of the American Reserve Union. Its charter should run for not less than twenty years, like national bank charters, nor more than thirty years. The Canadian principle is good of embodying in the law a statement to the effect that it is subject to congressional review every ten years.

The American Reserve Union shall have all the attributes and powers of a body corporate, and may sue and be sued in any court having jurisdiction of the action brought. It may act as the fiscal agent and attorney-in-fact for all the respective zone leagues and their member-banks and have full power to carry into effect the object for which this organization is created.

### ***Controls Free Gold Reserve***

The American Reserve Union shall be the custodian of the free gold reserve of all its member-banks. Each of them shall maintain a deposit of gold in their zone league, to the amount of 7 per cent of their individual deposits and 7 per cent of their credit-currency issues; and likewise shall pay the 5 per cent reserve on savings deposits to the Union in gold; also, the 2 per cent tax on circulation shall be paid in gold to the central body.

The American Reserve Union shall have absolute control over all of the gold so deposited. This control is subject only to reimbursement to any bank upon its final liquidation, of its gold deposit less its debts to its zone league or to American Reserve Union. The banks shall receive 4 per cent interest upon their gold deposit, from the American Reserve Union, as one of its operating expenses.

The American Reserve Union shall also have power to buy or sell gold coin or coin bullion in domestic or foreign markets.

### ***Protecting Banks and Public Credit***

The free gold reserve may be employed in any fashion that seems wise to its trustees for the purpose of maintaining the credit of the government and of the banks. To this end, the Union will arrange to furnish gold through any zone league to any bank that has pressing need for the same, but only upon adequate security guaranteed by the bank, and if necessary also guaranteed by its clearing house and zone league.

The gold may be kept in the vaults of the American Reserve Union at Washington, or in the vaults of the various zone leagues subject to the call of the Union.





upon the written recommendation of the Secretary of the Treasury approved in writing by the President of the United States, provided ample soon-to-mature security therefor is given. Such loan would be made only for a short time, and only when justified by highest consideration for the public welfare, as a further safeguard against possible emergency.

### ***Fixing Discount Rates***

In order to control the import and export of gold, and to facilitate the evening up of rates of interest throughout the various sections of the United States, the American Reserve Union should have power to fix the rate of discount or exchange, upon which it may be willing to sell some of its gold, or to rediscount prime commercial paper or prime acceptances for member-banks.

Such control of the discount rate has been practiced long and successfully by the Bank of England, Bank of France and the Imperial Bank of Germany. It accounts for rates in Europe being so much more steady than in America.

The discount rate fixed by the American Reserve Union, should be established only at a duly called meeting of all the trustees, held on Friday afternoon, and requires a four-fifths vote of the entire board. It would be announced Friday night, after the close of business.

The discount rates would be the feature of the American Reserve Union's circular which should be mailed that night so as to be on the desk of practically every banker in the United States the following Monday morning. This circular would give a general view of financial and business conditions throughout the United States and the world, and each bank would be obliged to keep it on file for the inspection and use of the public. No manipulation of the discount rate would be possible for the benefit of any clique, individual, bank or other corporation.

### ***May Buy Bills and Rediscount***

The American Reserve Union may buy and sell acceptances or bills of exchange, domestic or foreign, arising out of commer-

cial transactions, indorsed by the member-bank selling same, having not over four months to run and being of the character known as prime bills.

It may rediscount commercial paper for any bank, clearing house or zone league embraced within the Union, when the same is amply secured, and provided such paper arises out of agricultural, industrial or commercial transactions in contradistinction to stock exchange transactions or other speculations of a nonproductive character. "Such notes and bills must have a maturity of not more than 28 days, and must have been made at least 30 days prior to the date of rediscount. The amount so rediscounted shall at no time exceed the capital of the bank for which the rediscounts are made. The aggregate of such notes and bills bearing the signature or indorsement of any one person, company, firm, or corporation, rediscounted for any one bank, shall at no time exceed ten per centum of the unimpaired capital and surplus of said bank."

Whenever in the opinion of the American Reserve Union, the public interests so require, such opinion to be concurred in by the Secretary of the Treasury in writing, the Union "may discount the direct obligation of a depositing bank," indorsed by its zone league and local clearing house, if the same is fully secured by pledge and deposit with it of satisfactory securities, "but in no such case shall the amount loaned by the Union exceed three-fourths of the actual value of the securities so pledged."

### ***Other Duties***

The American Reserve Union may buy and sell the bonds of the United States, or of any state therein, or of any land bank incorporated under federal law; whether it may deal in the securities of foreign nations is a fair question.

It may receive deposits from any member-bank, clearing house or zone league, but not from individuals or other corporations, and shall not pay interest on deposits. Its domestic busi-



ness shall be done through its member-banks, and its foreign business through the national American export banks. It transacts no business with or for the public direct, for either home or foreign account.

### *Transfers of Credits*

It should be the duty of the American Reserve Union, or of any zone league, upon request, to transfer any part of the deposit funds of any bank having an account with it, to the credit of any other bank having an account with the American Reserve Union. If a deposit fund is transferred from the books of one bank or league to the books of another, it may be done, under regulations prescribed by the American Reserve Union, by mail, telegraph or otherwise.

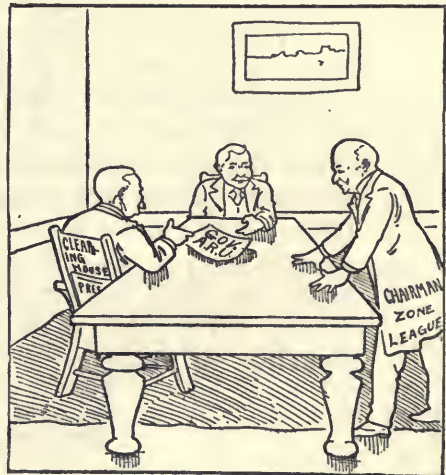
This adaptation from Section 37 of the Aldrich bill can be developed in a way to greatly simplify and facilitate ex-



AS IT HAS BEEN

Heretofore if a bank got pressed for funds, because its borrowers could not pay their loans fast enough to enable the bank to meet withdrawals, the only alternative has been for the bank to close its doors and suspend business. But even if this is done temporarily, it too often leads to permanent failure, receivership, liquidation and loss to all concerned.

What tragedy of financial distress, economic ruin and human failure has followed the suspension of banks! And nine-tenths of it all might have been avoided, had the Myrick method been in operation. How grave the need of such co-operation in view of the present small proportion of cash reserves to large demand obligations of American banks!



AS IT MAY BE

But, by the new method, each bank having \$25,000 capital or more is a member of its local clearing house. The latter's president says to the zone chairman:

"One of our banks is a little snug for funds, but we know it is all right, so the clearing house guarantees its paper."

Zone's chairman: "We will take some of it, but as we have a good many calls just now, we cannot take it all. However we will indorse the balance and rediscount it at the American Reserve Union."

Governor of A. R. U.: "Glad to cash all this kind of paper you can bring us. There is nothing safer, better or more available."

change. It may be that some form of national clearing house function can be developed by the American Reserve Union, which will be feasible and successfully convenient. It ought to be possible to effect all such transfers or exchanges without charge for collection, the only expense being the cost of transmitting the order, if by wire or wireless.

The purpose is to avoid all delays, charges, taxes and costs upon the free interchange and free play of exchanges, drafts, checks and credit instruments, not only between individuals and banks in the same locality or state, but between these interests in different parts of the country. Let us have free trade in exchange, as well as free trade in commodities, within the limits of the American nation. It will be quite possible for the American Reserve Union to perfect a plan for doing this, in co-operation with the clearing house function of its zone branches, working in harmony with local clearing houses and local banks.

### ***Supervises the Zone Leagues***

The American Reserve Union shall have general supervision over each and all of the zone leagues and in cases of necessity may assume charge thereof. Upon its recommendation, the comptroller of the currency should have power to withdraw from any bank its note-issuing function, provided the same has been abused.

Names and addresses of the member-banks shall be public property subject to public inspection and use; let nothing be hidden, covered up or kept back. The trustees' meetings should be open to the public, but executive sessions may be had by unanimous consent.

### ***Fiscal Agent of the Government***

The American Reserve Union shall act as banker, fiscal agent, representative and attorney-in-fact for the United States government, in selling government securities or in advancing money to it. The federal government shall transfer to and keep with the American Reserve Union a sufficient balance, approximating \$50,000,000, to meet all the government's checks and drafts, the Union acting as its general fiscal agent for all pur-

poses except for collection and current daily deposits of its revenue.

Of course, the bulk of the revenues of the government should be allowed to remain in the banks "at the very place where the duties are paid to the government, until actually needed to defray the expenses of the nation." This will be done directly by the treasury department in the regular course of business. For such government deposits, the banks should pay not less than 2 per cent, and as much more as the government can obtain from competitive banks under safe conditions. This at once solves the problem of preventing the government from unduly taking from the channels of trade the funds it collects, and thus a whole train of evils, inequality and possible favoritism and injustice is done away with. The government should not require the banks to "invest an equal amount of their capital in bonds to secure the repayment of any deposits it may make with them, because under the law, the government already has a first lien upon the assets of the bank with which it makes a deposit." As Fowler further says:

"The United States government should accept the checks and drafts of the national banks for any money due it, and should immediately redeposit the same in national banks in the locality where collected, without collateral, in order that the transactions of the government may be no more disturbing than an equal amount of business carried on between banks or between business houses and the bank."

### ***Income from the Two Per Cent Tax on Credit Currency***

By enabling each bank to strengthen its reserves, and to secure more actual cash (full legal-tender lawful money of the government) as narrated in Chapter XIX, the national banks will have occasion to issue credit currency only when they can lend it at a profit over and above the tax thereon at the rate of 2 per cent per annum. This tax would be 1 per cent semi-annually upon the average amount of such currency the bank had outstanding during the previous six months.



From the proceeds of this tax, an amount equal to 5 per cent of all credit currency outstanding shall be held in the American Reserve Union as a redemption fund with which to redeem the notes of any failed bank. The balance may be used (a) for paying all operating expenses of the leagues and Union, and for (b) defraying any losses that ultimately may occur. The remaining proceeds of the tax on circulation, and all other incomes, shall be used by the American Reserve Union for the following purposes:

1. To pay the extra 1 per cent on the 2 per cent bonds when refunded into 3 per cents, as described in next chapter.
2. To add gold to its surplus until the latter equals the average government deposit in the Union.
3. All profits earned by the American Reserve Union in excess of these purposes shall be covered into the treasury of the United States, and used for retiring its bonds.

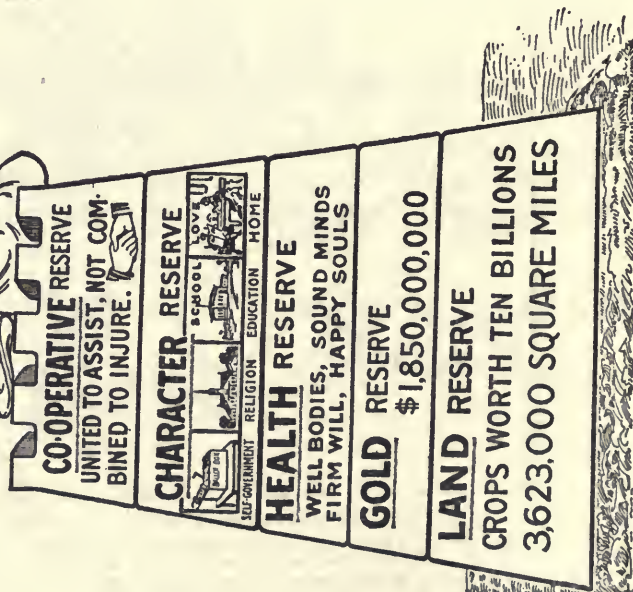


OWNER AND BOSS

Uncle Sam: "That's right, Governor of the American Reserve Union, I'm glad to have you clear out the rocks\*and do all the other heavy work for me on this financial farm of mine, but I want you to understand that I'm the owner and the boss!"

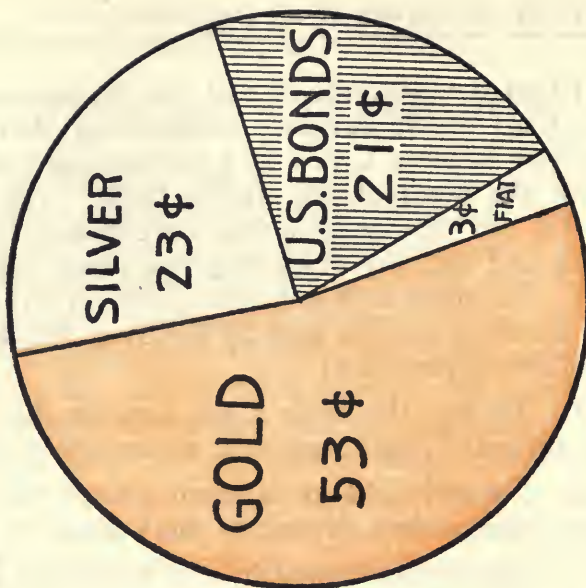
Governor of A. R. U.: "Aye, aye, sir. I'll obey orders."

If all the gold money in the United States were cut up into gold pennies, all the silver money into silver pennies, all the national bank notes which are backed by United States bonds into paper pennies, and the treasury notes which have no specific security back of them into fiat pennies, then the average dollar would be composed of gold 53 cents, silver 23 cents, paper money backed by bonds 21 cents, fiat money 3 cents; that is to say, the average American dollar is 53 per cent gold, 23 per cent silver, 24 per cent paper mostly backed by bonds. This statement is based on complete official statistics as of the end of December, 1910. The exact proportion varies slightly from month to month.



AMERICAN MONEY AND WHAT IS BACK OF IT

Uncle Sam: "I am satisfied that this American dollar of mine is the best money on earth. And just see what is back of it!"



## Chapter XIX

# What the Government Does

*It controls the entire situation*

*It alone coins MONEY, whether gold, silver or paper*

*It permits banks to issue credit currency*

*Eventually there shall be one uniform money, in place of the ten different kinds now in use*

*Superiority of American money*

*The vital change needed*

*American money in place of bank notes*

*Vast strengthening of now precariously small cash reserves*

*Impregnable reserves without one iota of inflation*

*All defects remedied without disturbance*

*Large advantages to national and state banks*

*Volume of money itself may safely fluctuate*

*Incidental considerations of importance*

*New economic transformations which insure the soundness of this method*

**T**HE national government of the United States, constituting the sovereign power of all the people in their federated relations, as a result of the organized method previously outlined, will now possess sovereign power over money and banking, in fact as in name. For while it permits national banks to issue *credit currency*, the federal government retains to itself sole control over the coinage of actual *money*, whether in the form of gold, silver or paper.

And while the bankers are free to run the banking business, just as other lines of business are free to all the people, the government retains to itself full control over its own receipts and expenses, assets and liabilities, simply using the American Reserve Union as a banking agency and convenience, much as the individual depositor uses his local bank.

### *Distinction Between Money and Credit Currency*

The distinction is vital between money and credit currency. The latter is an instrument for the transfer of values, similar to



a check on a bank; the former is the concrete embodiment of the value itself. Only the government may control money, but banks may freely utilize all forms of credit instruments, subject only to laws and associations that shall prevent abuse and insure stability.

No form of credit currency is lawful money, nor legal tender for all debts public and private, because it is merely an instrument for transferring values. But every form of actual money should be lawful money and full legal tender, because it is itself the concrete expression of the value it represents.

### ***One Uniform Money***

Therefore, let us aim to establish—in a gradual, natural and evolutionary manner—one uniform kind, quality and character of American government money.

Let every dollar of our actual money be full legal tender for all debts public and private. Let its paramount legal status as lawful money be reinforced by its natural economic status of containing 100 cents worth of gold, or being interchangeable at par for gold.

This improvement upon our present ten different kinds of so-called "money" will be inherent, vital, vast—pregnant with rich possibilities for the American people.

### ***Superiority of American Money***

Even in its present somewhat complicated composition and technically varied legal attributes, the American dollar is superior in every way to the European dollar.

Considering the total stock of money in the United States the American dollar contains one-quarter more of gold than does the European dollar. American money contains over 50 per cent more silver, and only about half as much paper or credit.

If this comparison at the beginning of the year 1911 is confined to the relation of gold reserves to paper money, excluding silver entirely, we find that the American gold-and-paper money

consists of 60 per cent gold reserve and only 40 per cent credit coinage represented by paper, whereas the proportions are almost exactly reversed in the European gold-and-paper money, which consists of only 35 per cent of gold reserves, the other 65 per cent being represented by paper; but in our case, most of the "paper" consists of United States bonds—the highest type of government security yet devised by any people in the world.

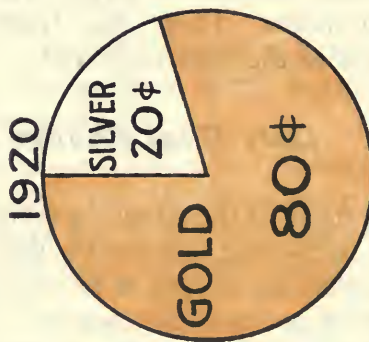
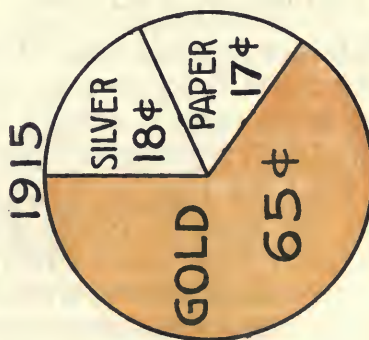
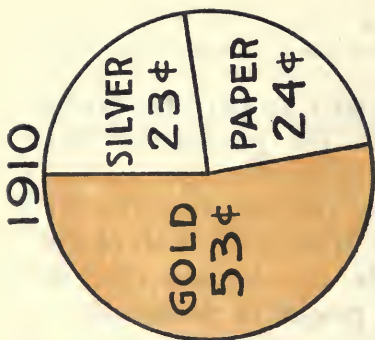
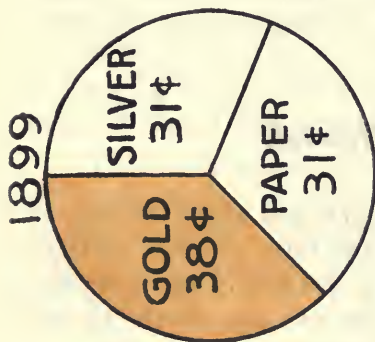
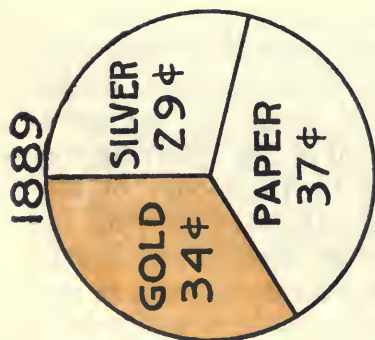
Now, the other fourfold reserves—land, character, health, co-operation—back of the American coinage of credit are prodigiously bigger and stronger for America than for either the United Kingdom or any of the nations of continental Europe. These conclusions profoundly favor the United States, although the comparisons include as paper money both our bank notes and treasury notes. How this truth is emphasized by the graphic charts in the present work!

### ***Only Vital Change Needed***

Further study of the situation from each and all of its angles leads to the inevitable conclusion that the only change vitally needed in American money is to replace gradually the present bank notes with government money. This change should be so effected as to rigidly protect against either overexpansion or undue contraction.

Since bank notes in their present form act as money, except that they may not be counted in reserves, their gradual exchange for government money, dollar for dollar, would not increase by one iota the total volume of all money.

Suppose this change had been effected gradually during the twenty months ended September 1, 1912, by the national banks selling at par to the federal treasury each month not to exceed one-twentieth of their holdings of 2 per cent bonds, receiving for each \$1,000 bond the sum of \$1,000 of lawful money of the United States, the bank, of course, simultaneously retiring its \$1,000 of national bank notes outstanding against the bond. Then if no other change had occurred, the money account in the federal treasury would show as follows:



### *Progress of the <sup>TM</sup>American Dollar*

As measured by the gold reserves in the United States treasury and banks. Data for past and present, from United States treasury and mint reports; data for the future, author's estimate.

Observe the increased proportion of gold in the dollar during the last 30 years. Who will say that the author's predictions for the future are extravagant, in the light of the past? These predictions will be realized if the American monetary method is suitably perfected.



### ***United States Money Account***

As of September 3, 1912, assuming that the 2 per cent bonds had been all cashed (approximate figures) :

| <i>Assets</i>     |                 | <i>Liabilities</i>  |                 |
|-------------------|-----------------|---------------------|-----------------|
| Gold, all forms   | \$1,221,000,000 | Gold certificates   | \$1,054,000,000 |
| Silver, all forms | 523,000,000     | Silver certificates | 490,000,000     |
| 2% U. S. bonds    | 683,000,000     | New American money  | 683,000,000     |
| Deficit           | 150,000,000     | Old treasury notes  | 350,000,000     |
|                   | <hr/>           |                     | <hr/>           |
|                   | \$2,577,000,000 |                     | \$2,577,000,000 |

Now, this operation has not changed the amount of the deficit or uncovered paper. It has simply transferred to the federal treasury all the 2 per cent bonds, against which an equal volume of lawful money has been issued in place of that amount of national bank notes. There has been no change in the total volume of money, or in the security back of it, or in its location in the treasury or in circulation.

### ***American Money in Place of Bank Notes***

What has been done, however, is to substitute full legal tender lawful money of the United States government for the notes of some 7,500 different national banks. These banks have received this money in exchange for their notes and for the bonds which secured those notes, so that not a dollar has been withdrawn from circulation and there has been no disturbance whatever to business or finance.

Now, in gradually effecting this vital change, assume that Congress had provided that the gold certificates and silver certificates outstanding, also the old treasury notes (so-called greenbacks) and new treasury notes issued for the bonds, should all be changed over into one uniform kind, character and quality of money, known as American government money, each dollar of which should be lawful money with full legal tender qualities receivable for all debts, public and private.

Every dollar of such American money would have back of it in the national treasury, reserves consisting (in round num-

bers) of 53 cents in gold, 23 cents in silver, 21 cents in United States bonds, making a total of 97 cents of the best security in the world back of each dollar, and leaving only three cents on the dollar of government fiat or apparently unsecured credit.

That would be the best dollar in the world!

Moreover, the gold reserves would continue to augment in future relatively faster than in the past, if the methods outlined in this work are at once put into effect. Indeed, it is not too much to say that by the year 1920, or early in the third decade of the present century, each American dollar would have back of it in the treasury reserves substantially 80 cents in gold and 20 cents in silver. Long before 1925, the gold reserves will reach 100 cents for every dollar of American money outstanding.

How conservative this prediction in view of the cold fact that American reserves of gold increased by the prodigiously colossal sum of 727 millions of dollars during the eleven years ended with 1910! This was a threefold increase over the previous decade. Should that rate of increase be maintained, we would have 100 cents of gold on the dollar long before the close of the current decade. The present rate of gain, rather than the phenomenal relative increase noted for the two periods, will more than fulfill the prediction of the preceding paragraph. Chapter XX must be mastered in order to realize fully the sound conservatism of the views herein expressed.

Over and above such metallic reserve of 100 per cent, each American dollar would be backed by America's other reserves, each of which are in truth more important than gold—our Character reserve, our Health reserve, our Land reserve, and our Co-operative reserve!

Observe that this money has back of it *now*, after the change is effected, all that was back of it before. There has been no dilution of its backing, or security, or value. The bonds are now in the federal treasury, instead of being held by 7,500 different banks. These bonds originally cost the banks par or more in gold or its equivalent; all that value is therefore back of and represented in them today—not one mill of fiat in these bonds, and every dollar of the government money heretofore or now

issued partly upon their security is the equivalent of gold, because interchangeable at par for gold.

### ***Vast Strengthening of Bank Reserves***

If the above had been consummated as suggested, then the condition of the national banks in the United States, September 3, 1912, would have shown an addition to their reserves of 714 millions of dollars, being the total amount of national bank notes then outstanding which have now been transmuted into American money. (This total is here used, instead of only the 683 millions of bank notes secured by the 2 per cent bonds.) The national bank gross reserves in gold, silver and lawful money would then stand at 2,182 millions, against net deposits subject to reserve requirements of approximately 7,100 millions of dollars, as officially reported.

In this way gross reserves are raised from a trifle less than 20 per cent to about 30 per cent. There would then be no duplication in or "pyramiding" of the reserves, either in New York city, Chicago, St. Louis, or the central reserve cities, which now bring down the actual net cash reserve relative to all demand obligations to state banks and other depositors.

Assume that on the same date the national banks had liquidated their net indebtedness of 881 millions to state banks and trust companies, now the nationals would still have remaining a net cash reserve of 774 millions against individual deposits, United States and postal deposits of 5,951 millions.

In other words, the nationals have now paid all their obligations to state banking institutions, and have left an average cash reserve of 13 per cent against their other deposits or demand liabilities, compared to hardly 1 per cent as was the actual situation at the date cited. And the state banks and trust companies having received this large volume of cash in place of their claims against the nationals, have likewise increased their reserves from present notoriously low figures to a point of unexampled stability. The laws of the respective states should require state banks to maintain reserves equal to the reserve requirements of national banks. This will insure against a common danger.



***Impregnable Reserves Without One Iota of Inflation***

Thus without one single iota of inflation, we have transformed the entire banking situation from one of over-extended credits in relation to cash reserves, to a position of impregnable reserves in relation to credits. And this transformation has been effected without any disturbance, uncertainty, or loss. On the contrary, it has improved the economic situation throughout the United States, and therefore has benefited directly the whole commercial world.

Nor have we "watered" the currency, nor issued more "greenbacks," nor returned to the "heresies of fiat money inflation." Every dollar of American money is backed by 47 per cent gold and 20 per cent silver, making a total metallic reserve of 67 per cent. The United States bond reserve of 27 per cent is no more and no less than it has been ever since the 2 per cent bonds were issued.

In a word, we have merely substituted one uniform kind, quality and character of American money for the present more or less unrelated ten different kinds of so-called "money." This now homogeneous American dollar has back of it all of the gold, silver and bonds that were back of the heterogeneous dollars of the past.

In addition to having the same security, however, we have now so co-ordinated the financial and banking with the industrial interests of all the people, as to make incomprehensibly stronger the economic position of the United States.

We can now guarantee to exchange each and every dollar of American money for a dollar of gold of the present weight and fineness upon demand at any instant anywhere, and we are in a position to constantly, persistently and everlastingly still further increase our gold reserves, both actual and relative.

***All Defects Remedied Without Disturbance***

Thus we have at once remedied each and every defect that has been pointed out in the fiscal and commercial banking system of the United States.

We have perfected an American fiscal method for the American people.

In so doing, we have created an American dollar that is good for 100 cents in gold in any market anywhere in the world at any moment.

So far as human ingenuity can devise, we have safeguarded against panics at home while laying the foundations wide and deep for commercial supremacy abroad.

We have made it possible for America to enter upon an era of development before which the glories of the past may pale into insignificance.

We have placed all the people, through their federal government, in control of the money power, instead of having the money power in a position possibly to control the American people and their national government!

And all this has been accomplished without injury to any bank, interest, or industry.

### ***Large Advantages to the Banks***

Some national banks may object to the apparent loss of their note-issuing function, but in its present form that function affords but slight profit, taking one year with another. The profit on circulation of bank notes is officially estimated (United States comptroller's report 1911) to be around 1.3 per cent per annum, if the bank can earn 6 per cent for its funds. The profit is more or less, according as the rate earned is more or less than 6 per cent. Over the older sections of the United States, the rates for money during the past few years have been such as to yield little if any profit upon circulation. A number of expense items involved do not appear in the official estimates.

The feeling among many nationals is that circulation is "about an even thing," taking one year with another. In earlier times, there was a large profit on circulation. In these recent years, the profit has been so small as not to induce state banks to change over to nationals. The fact that thousands of state banks, without the note-issuing function, make profits that

compare favorably with nationals, tends to confirm the foregoing statements.

### ***Nationals May Issue Credit Currency***

My method, however, now permits the national banks to go on and issue a pure credit currency for short time and temporary use, whenever such currency is required to meet the demands of trade. Such credit currency is backed by a reserve of 7 per cent in gold deposited in the zone league, and a further reserve in the banks' own vaults which averages 8 per cent and that may be partly in gold and partly in lawful money, making a total reserve averaging 15 per cent in cash against each dollar of credit currency issued. It is now possible for the banks to obtain and build up such reserves with which to support their credit currency, over and above the reserve required against their deposits.

While the position of the banks is thus made incredibly stronger than at present, there is no danger that they will unduly inflate their issue of credit currency. For they will put it out only when it pays them so to do, after paying the 2 per cent tax thereon, and borrowers will not borrow unless they can employ labor at a profit. The credit currency privilege accorded to the nationals is a fair set-off for withdrawing their bond-secured note-issuing privilege. Such fair exchange is therefore no robbery. But in addition thereto, my method possesses other advantages of such transcendent importance to banks and public as to warrant its prompt enactment by Congress.

The margin remaining to national banks upon which they may issue credit currency is not large. Of their 1,308 millions of new cash reserves, they must retain say 858 millions against their deposits to meet the reserve of 15 per cent required by law and by good banking. This leaves a margin of 450 millions. If one-third of it is retained to cover reserves for increasing deposits, we have a free balance of only 300 millions, or an extra leeway over and above legal reserves of only some 5 per cent upon demand obligations. Even if the use of credit currency supplanted checks and drafts to some extent, its volume would always be petty compared to the volume of these other credit



instruments. A free margin of substantially 5 per cent is none too large for a nation of soon-to-be 125,000,000 people with immeasurable national resources to utilize and conserve.

### ***Money Volume Fluctuates within Safe Limits***

Right here comes in another advantage: Any bank, national or state, shall have the right at any time to buy back at par these government bonds from the federal treasury, which will then be earning 3 per cent instead of 2 per cent. And the bank may also turn back into the federal treasury any of the bonds it has thus repurchased, after having held them a reasonable time—say four to six months, whenever it can use the bank's funds to better advantage.

That is to say, when a bank cannot earn more than 3 per cent on its funds, they will flow into these treasury bonds, but when the bank is able to earn more than 3 per cent on its funds, it will again exchange the bonds for the funds it gave for them. Such exchanges shall be effected through the American Reserve Union as the government's fiscal agency; the Union does the work, but the government is the master.

Thus is set up a means for automatically expanding and contracting the volume of American government money itself, so that the supply thereof will always just equal the demand. Over-expansion in the volume of money is guarded against, because the quantity can be increased only in the form of gold. Undue contraction is likewise guarded against by the proviso that such interchanges of cash and bonds by the banks shall be permitted only at such times and in such ratios as may be approved by the American Reserve Union, concurred in by the Secretary of the Treasury.

Absolute equality for state banks is assured by the rule that any state bank, which by joining its local clearing house becomes an integral part of the organization of its zone league and of the American Reserve Union, shall be entitled to the same privileges that the national banks enjoy with reference to placing their funds in 3 per cent government bonds and cashing under the terms above noted; also in all other respects, save only the credit currency issuing function.

The 3 per cent paid on the bonds will practically establish that rate for surplus funds, whether in the hands of banks or private parties. Such uniformity, together with the power of the American Reserve Union to fix the rate of discount, will tend to equalize the price of money and of credits in all sections of the continental United States. The whole method will therefore tend to maintain stability in values, and will afford efficient protection against the artificial ups and downs which have done so much heretofore to create panics.

### ***Other Considerations of Importance***

Some may say that this plan is an infringement upon the rights of the holders of gold certificates. Not at all; they can exchange their gold certificates for the actual gold if they want it, or as the gold certificates are deposited in banks they will be automatically exchanged for American government money; the same with silver certificates.

This plan leaves it open for Congress to cut up more of the silver dollars into subsidiary silver as fast as gold reserves increase. If this policy is carried out, before 1925 there may be 100 cents of actual gold in the reserves for every dollar of American money outstanding. For the American people greatly prefer paper money to metallic money; all experience and official data confirm this fact, provided all the paper money is as good as gold all the time.

The American money proposed is utterly different from the note issues contemplated by the Aldrich bill. The latter measure placed in the hands of five men (a majority of its executive committee), the power to manipulate most of the currency of the country, even to the extent of authorizing banks to count its notes in their cash reserves. The Fowler bill was not so objectionable in this respect, though still far from perfect.

This method entirely solves the problem of "taking care" of the 2 per cent bonds, the disposition of which has been such a stumbling block in other plans.

American money should be in denominations of \$1, \$2, \$5 and upward. No credit currency should be issued in smaller

denominations than \$10. Keep the smaller bills for the people's permanent money.

Incidentally it is to be noted that the federal treasury saves 2 per cent interest on all of the bonds it thus takes in. The saving will amount to upward of 14 millions of dollars annually when all the bonds are thus cashed. Furthermore, the American Reserve Union is obliged to pay a premium of 1 per cent annually upon these 2 per cent bonds, so that the government may benefit to the total extent of \$20,000,000 a year from the transaction. This sum would enable gold to replace an equal amount of bonds in the treasury, which would be canceled.

*A wise law and its prudent administration can be trusted to effect this change from bank notes to government money, so gradually as to avoid all disadvantages and assure all advantages. Any possibility of over-expansion of credit currency by the banks may also be avoided.*

### ***Final Word as to Credit Currency***

The timid will point out that these added reserves will tempt the banks to over-extend their credit currency. What of it, so long as such currency upon demand is redeemed instantly in actual money, and therefore is always as good as gold? The volume of credit currency will then fluctuate, as does the volume of checks (cheques), in accordance with the demands of business.

Don't confuse credit instruments, whether checks or currency, with MONEY. Probably checks and drafts will be "cleared" between banks in the United States to a total of 200 *billions* of dollars during 1913, compared to only 126 billions in 1908. If a relatively minute fraction thereof should be credit currency instead of checks or drafts, this will be simply because the use of such current credit is more convenient than the transfer of book credits by checks and drafts.

As a matter of fact, when all the people are educated to fully use banks, checks will be employed almost universally, credit currency will be employed less and less in volume and frequency, and its duration of life will be shortened as its use becomes



more and more temporary. American MONEY will be used mainly for payrolls, as petty cash and for retail transactions. With the perfection of banking and of credit instruments, the use of actual money or of credit currency will be correspondingly reduced.

### ***New Conditions Insure Soundness***

The economics of the human race are being transformed! Entirely new factors have come into play that are creating new conditions of the most profound significance to America and to the world. These new influences bid fair to become more pronounced annually for the ensuing few years. They are so fundamental as to warrant prime consideration. Some of the most startling revelations of the new economics are set forth in the next chapter.

These and other conditions establish the soundness of my recommendations, while also proving their necessity.

Meanwhile, it will be noted that the American government controls the situation. It may permit the volume of American money to expand or contract moderately within the maximum limit fixed, or as that limit may be increased by enlarging the gold reserve. Credit currency is put into its proper place, of being merely a more convenient form of temporary credit instrument to supplement the volume of money when business requires, just as checks expand or contract in number and amount with industrial activity.

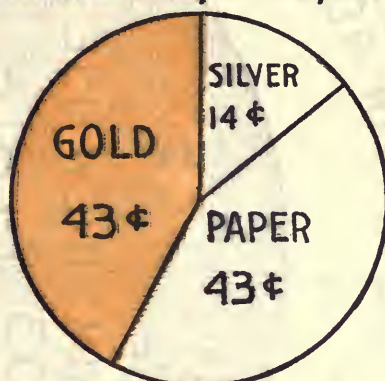
The welfare of little business and of big industry is conserved, progress in the arts and sciences is promoted, and the common good of all the people is insured. The rights of individual and corporation, state and nation, are safeguarded. Each of these interests maintains its independence, but all co-operate to do together that which can be done better through association than separately.

“Not to stand alone is vital,  
Get together is immortal:  
Instead of weakness, separately,  
Strength in oneness with Infinity!”

**Total Stocks of Gold in America and Europe Compared**



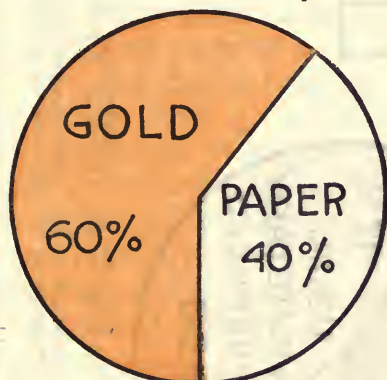
**AMERICA**



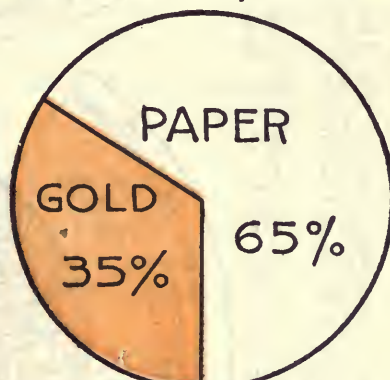
**EUROPE**

The first circle above shows the composition of the American dollar on 31 December 1910. The circle beside it gives the same facts at the same date for what may be called the average dollar of the United Kingdom and continental Europe combined. That is to say, if the *total stock* of money in America at that date had been cut up into gold pennies, silver pennies and paper pennies, and mixed in their existing proportions, each dollar of 100 cents would have been composed as above indicated. The same explanation applies to the money of all Europe. The figures are based on official returns derived from the United States mint report for 1911.

**Gold Reserves Compared in Relation to Paper Money**



**AMERICA**



**EUROPE**

The diagram at the left shows that all of the paper money in the United States 31 December 1910 (including as money national bank notes as well as treasury notes) was only about 40 per cent of the total quantity of gold RESERVES and total paper money. For all Europe, the gold reserves at the same date were only 35 per cent of the total quantity of gold and paper money.

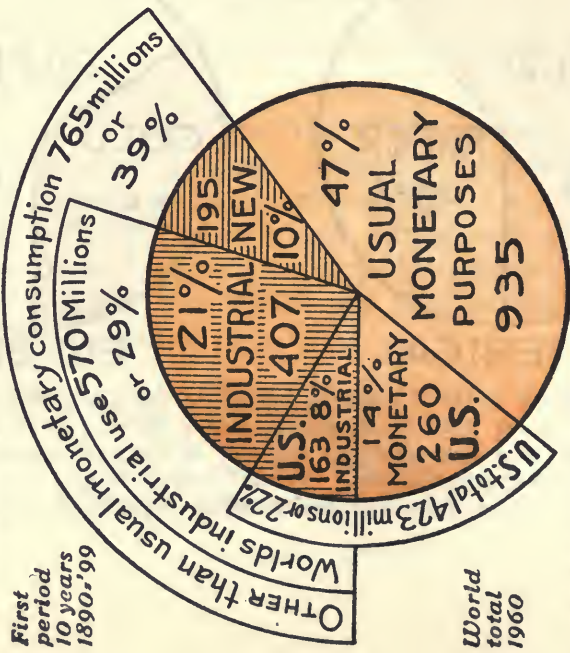


# Changes in the World's Production and Consumption of Gold

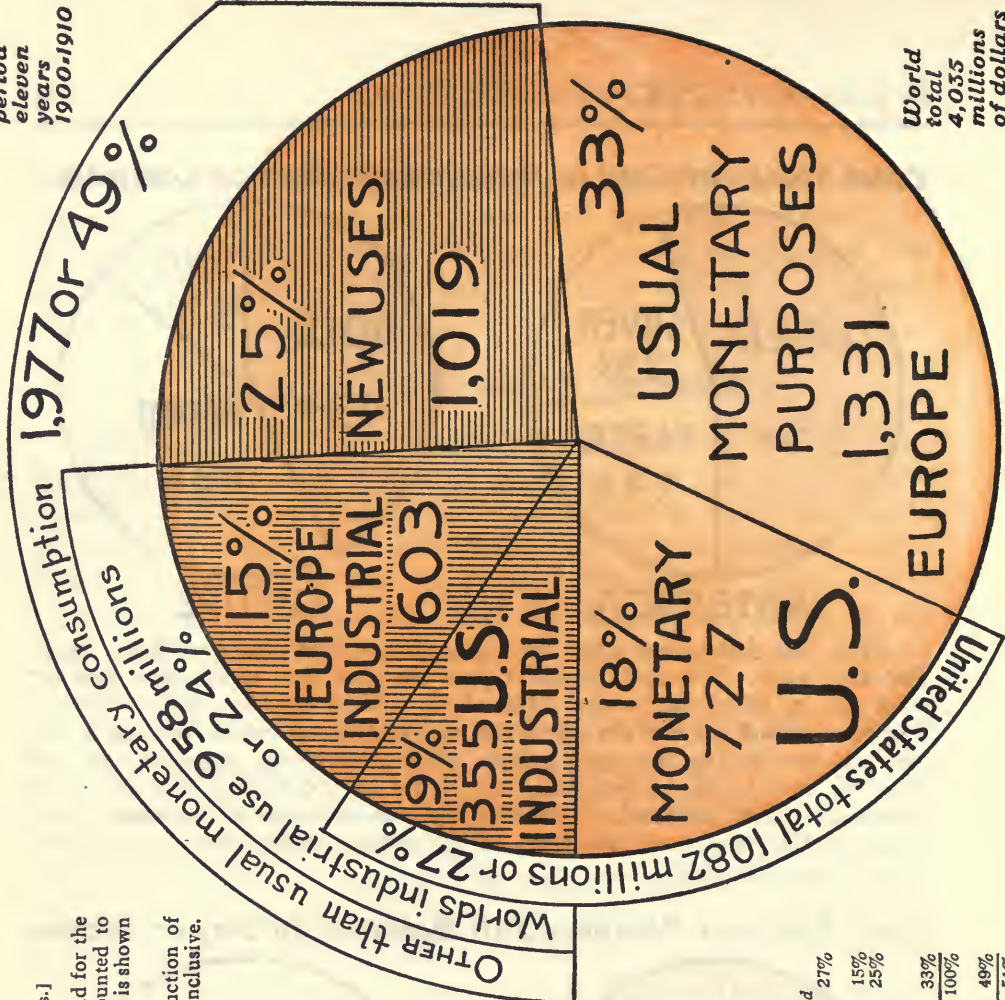
[All figures, where not followed by %, are round millions of dollars.]

A—This smaller circle shows that the total production of gold for the entire world during the ten years ended with 1899, inclusive, amounted to 1,960 millions of dollars. How this quantity of gold was consumed is shown by the subdivisions of this smaller circle.

B—The larger circle gives corresponding data for world's production of 4,035 millions of dollars during the eleven years ended with 1910, inclusive.



How the new supply of gold was used  
 The United States retained..... 423 millions or 22%  
 Other countries used for industrial purposes..... 407 millions or 21%  
 New and unusual absorption was..... 195 millions or 10%  
 Leaving for refined bullion and gold coin to be added to the monetary stock of all the rest of the world..... 935 millions or 47%  
 Total..... 1,960 millions or 100%  
 Of which industrial uses and unusual absorption used..... 765 millions or 39%  
 Leaving for usual monetary purposes..... 1,195 millions or 61%



Second period eleven years 1900-1910

World total 4,035 millions of dollars



## Chapter XX

# New Phenomena in Gold

*New conditions have transformed the gold situation*  
*Conclusions as to world's production and consumption*  
*The unprecedented new demands for gold*  
*United States has gained more gold than any other nation*  
*Use of gold in the arts*  
*New developments in use of gold as money*  
*Gold alone not the cause of high prices*  
*Gain in world's reserves of gold*  
*The total stock of gold money in America and elsewhere*  
*Relation of gold to volume of paper money*  
*America on a hard-money basis, while Europe approaches*  
*RELATIVELY a soft-money basis*  
*Relation of gold to loans and discounts*  
*World's showing for 21 years*  
*America's remarkable gains in 21 years*  
*Comparisons with other countries*  
*Final conclusions extraordinary*

**N**EW conditions now control in the supply, movement and use of gold, taking the world as a whole. These new factors are in marked contrast to the conditions which prevailed so recently as the year 1900. Present conditions are so new, so different from the past, and of such elemental importance, that thorough understanding of them is preliminary to a comprehension of existing circumstances, and to a sound judgment as to their influence upon the future of economics in particular and of civilization in general. The present situation has come upon the world so rapidly, and economic progress in America is so impetuous, that the true significance has not yet been grasped of these new developments.

It is not easy to express in a few words and pictures all these new facts and influences so as to convey to the mind a clear conception of the unprecedented developments now going on. How efficiently these few pages accomplish that purpose will depend in part upon the mind powers and mental concentration of the reader.

While this phase of finance has ever been complex, it is possible to present the situation briefly, simply and clearly. The accompanying designs, with the tables in Addenda, summarize present conditions in a manner to warrant the following conclusions:

### ***World's Production and Consumption of Gold***

1. Production doubled during the eleven years ended with 1910 over the previous decade, but only **51** per cent of this increased supply was employed for *usual* monetary purposes!

2. The much heralded increase in the world's supply added less than 5 per cent each year to the stock of gold available for monetary purposes in the countries of *usual* consumption—Europe, America, Australasia and South Africa!!

3. Industrial purposes consumed 24 per cent of the world's production during the latter period, compared to 29 per cent for the previous decade.

4. The amazing new fact is that the *unusual* absorption of gold jumped from one-tenth of the production during the earlier ten years, to one-fourth for the past eleven years. Whereas, just under 200 millions of dollars measured the consumption of India and Egypt during the former decade, those countries (together with South America, Japan and Mexico) consumed a trifle over **1,000** millions for the latter period.

5. Here was a *fivefold* increase in the *unusual* absorption during the past eleven years, against an increase for *usual* monetary purposes of only 47 per cent. Therefore, the new consumption of gold increased relatively *ten* times as fast as did the ordinary consumption!!!

### ***The New Demand for Gold***

Considering only the increased supply during the second period over the first (of which increase 388 millions went into industrial uses), the balance of the *added supply was almost equally divided* between the usual monetary consumption—863 millions—and the *unusual* absorption of 824 millions of dollars!

Any authority would have been ridiculed if he had predicted in 1900 that practically one-half of the increased production during the ensuing decade (other than industrial uses) would be absorbed by India, Egypt, South America, Japan and Mexico, which had only then begun to come into the market as buyers of gold. He would have been "laughed out of court" if he had said that 433 millions would be taken by India and 146 millions by Egypt, without adding to the apparent stock of gold money or of visible reserves in those countries.

If he had further predicted that South America was to witness such a wonderful economic development and financial rehabilitation as to suck up 343 millions of dollars in gold during the period ending with 1910, credulity would have been taxed to the utmost. If he had added that Japan and Mexico would "get away with" another hundred millions, our authority doubtless would have been regretfully sent to a lunatic asylum!

But all this has happened. The same movement is going on today.



**THE MYSTERIOUS SINK-HOLE OF INDIA**

Fully 433 millions of dollars worth of gold has "disappeared" into India during the eleven years ended with 1910. The gold coinage of India appears not to have increased.

Equally mysterious is the absorption by Egypt of 146 millions during the same time.

### ***The United States Gained Most***

Equally amazing, and still more directly important to the American people, is this pregnant fact: that the United States gained 1,018 millions of dollars in gold during the past eleven years, compared to a gain of only 395 millions in the previous decade.

That is to say, during the latter period, the United States got 27 per cent of the total production of gold in the world, the countries of unusual consumption got 25 per cent, and all the other peoples of the globe combined got only 48 per cent!



Or, to interpret the world's consumption of gold in different terms, we see that, whereas during the first period the usual monetary purposes employed 61 per cent of the world's production, the proportion thus used for the second period fell to 51 per cent. The unusual absorption now took 25 per cent of the total supply, compared to only 10 per cent in the previous decade.

Gold production in the United States is now about 100 millions of dollars annually, or three times as much as two decades since. The importation of refined gold bullion and gold coin of all kinds into the United States for the twenty-one years ended June 30, 1910, almost exactly balanced the total exports, the excess of imports being only one million. Add to this the United States production of 1,422 millions, and we have a total addition to the United States supply of gold during these twenty-one years of 1,423 millions of dollars.

Is it any wonder that the gold reserves in the banks and treasury of the United States at the end of the latter period should have been almost 1,000 millions greater than at the beginning? Yet only about two-thirds of our supply was used for money, and the showing would be vastly better from the viewpoint of cash alone had the United States coined the other third of its supply which it consumed in the arts.

### *Use of Gold in the Arts*

The world as a whole used for industrial purposes, during the second period, only 24 per cent of the supply, compared to 29 per cent for the earlier decade. But the United States more than *doubled* the quantity of gold it used in the arts, while for the rest of the world such industrial consumption increased only about 50 per cent.

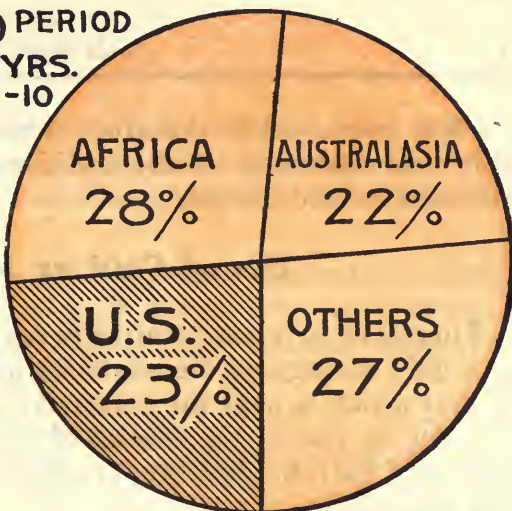
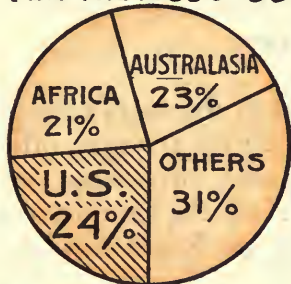
To interpret more clearly the development of American manufactures of gold, it may be said that American goldsmiths used 37 per cent of all the gold consumed in the arts of the entire world during the past eleven years, compared to 29 per cent thereof during the previous decade.

Of the total net quantity added to supply of gold in the United States during the past eleven years, no less than *one-*

# World's Production of Gold for Two Periods

## SECOND PERIOD ELEVEN YRS. 1900-10

## FIRST PERIOD TEN YRS. 1890-99



**Aggregate Production** for this first period of 10 years \$1,960,000,000, making an average of 197 millions annually.

**Aggregate Production** for this second period of 11 years \$4,035,000,000, making an average of 367 millions annually.

### COMPARISONS AND AGGREGATES FOR THE TWO PERIODS

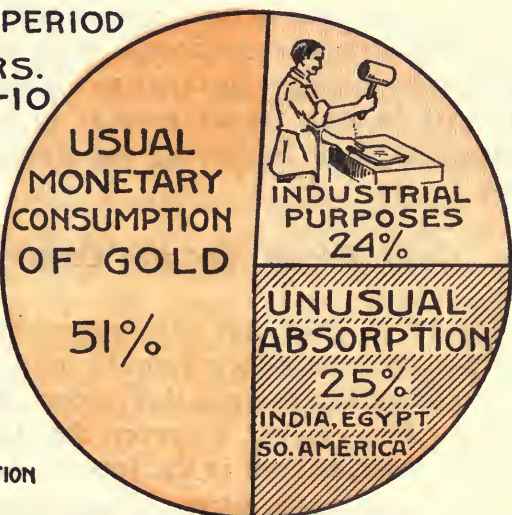
|               | Production Total for Period |                       |                       |                          |
|---------------|-----------------------------|-----------------------|-----------------------|--------------------------|
|               | 1890-1899<br>10 years       | 1900-1910<br>11 years | 2d period<br>over 1st | 21 years<br>both periods |
|               | Total                       | Total                 | Increase              | Total                    |
| United States | 467                         | 955                   | 488                   | 1,422                    |
| Africa        | 420                         | 1,124                 | 704                   | 1,544                    |
| Australasia   | 458                         | 863                   | 405                   | 1,321                    |
| Others        | 615                         | 1,093                 | 478                   | 1,708                    |
| Total         | 1,960                       | 4,035                 | 2,075                 | 5,995                    |

|               | Average Annually      |                       |                       |                          |
|---------------|-----------------------|-----------------------|-----------------------|--------------------------|
|               | 1890-1899<br>10 years | 1900-1910<br>11 years | 2d period<br>over 1st | 21 years<br>both periods |
|               | Total                 | Total                 | Increase              | Total                    |
| United States | 47                    | 86                    | 39                    | 133                      |
| Africa        | 42                    | 102                   | 60                    | 144                      |
| Australasia   | 46                    | 79                    | 33                    | 125                      |
| Others        | 62                    | 100                   | 38                    | 162                      |
| Total         | 197                   | 367                   | 170                   | 564                      |

# World's Consumption of Gold for Two Periods

## SECOND PERIOD ELEVEN YRS. 1900-10

## FIRST PERIOD TEN YRS. 1890-99



**Aggregate Consumption** for this first period of 10 years \$1,960,000,000, making an average of 197 millions annually.

**Aggregate Consumption** for this second period of 11 years \$4,035,000,000, making an average of 367 millions annually.

### TOTAL FOR THE TWO PERIODS

|                         | Consumption Total for Period |                       |                       |                          |
|-------------------------|------------------------------|-----------------------|-----------------------|--------------------------|
|                         | 1890-1899<br>10 years        | 1900-1910<br>11 years | 2d period<br>over 1st | 21 years<br>both periods |
|                         | Total                        | Total                 | Increase              | Total                    |
| Industrial purposes     | 570                          | 958                   | 388                   | 1,528                    |
| Usual monetary purposes | 1,195                        | 2,058                 | 863                   | 3,253                    |
| Unusual absorptions     | 195                          | 1,019                 | 824                   | 1,214                    |
| Total                   | 1,960                        | 4,035                 | 2,075                 | 5,995                    |

|                         | Average Annually      |                       |                       |                          |
|-------------------------|-----------------------|-----------------------|-----------------------|--------------------------|
|                         | 1890-1899<br>10 years | 1900-1910<br>11 years | 2d period<br>over 1st | 21 years<br>both periods |
|                         | Total                 | Total                 | Increase              | Total                    |
| Industrial purposes     | 57                    | 87                    | 30                    | 144                      |
| Usual monetary purposes | 120                   | 187                   | 67                    | 307                      |
| Unusual absorptions     | 20                    | 93                    | 73                    | 113                      |
| Total                   | 197                   | 367                   | 170                   | 564                      |



*third* was employed in the arts. Thus only two-thirds of our supply was consumed by the additions to our stock of coined money and refined bullion.

### ***Use of Gold as Money***

Therefore, it is conservative to say that of the total production of gold throughout the world during the past 21 years, other than that which is used for industrial purposes, only about one-half went to enrich the stocks of money in the commercial nations, and the other half went to India, Egypt, South America, Japan and Mexico.

This entirely new condition proves in a striking manner how the human race adapts itself to changing circumstances. Only about half of the increased flood of gold is coming into monetary uses in the commercial nations, the balance being taken by peoples who in former years did not figure largely as gold consumers. Those new consuming countries were not even mentioned in the gold statistics prior to 1900.

The significance of this remarkable evolution is here: even if the present rate of increase in gold production should continue during the current decade, since only about half of the new supply is becoming monetarily available in America and Europe, that will be only about enough to take care of the normal demands of their increasing population, business and development.

### ***Gold Alone Not the Cause of High Prices***

So far as gold may have promoted higher prices for commodities, these new facts seem to indicate that gold has reached the zenith of its powers in this respect, at least during the present decade. It is evident, however, that the scramble for gold will continue to be as keen in the future as it has been in the past.

We are to remember, also, that every dollar's worth of gold dug out of the ground represents from 75 to 150 cents' worth of brains and effort, labor and capital. The cost of gold production during these twenty-one years has probably averaged 90



cents for each dollar of refined bullion secured. That is to say, the human effort thus employed would have earned about 90 cents, if it had been applied to other industries, for every dollar it earned in gold mining.

Indeed, it is a fair question whether the gold-producing industry as a whole yields a much larger net return upon the human effort and capital it requires than do other lines of industry, over a period of years.

Gold does not rain from heaven! Like all other good things in this life, it is got only as a result of hard work. It is simply a product of human effort, just as wheat, fabrics, houses or other commodities are products of human effort. This fundamental truth is utterly lost sight of in much of the discussion of the standard of values, and in considering the influence of gold upon prices. Certainly an increase of less than a petty 5 per cent annually in the commercial world's gold-money is not the main cause of the upward trend of commodity prices.

If human demands for commodities increase faster than human effort is willing to work enough harder to supply the demand, higher prices per unit are naturally inevitable. Fewer hours of daily work, no epochal development in processes or inventions in machinery to compensate for the reduction in human effort, the luxuries of yesterday become the necessities of today, and the non-producing population increasing relatively faster than are the producers—the causes for higher prices should be sought along these lines! And it may be that the diversion to gold-mining of so much thought, labor and money that otherwise would have been employed in argicultural and manufacturing production, has been an even greater factor in advancing commodity prices than the amount of gold produced. Human effort is the true expression of value, but man has not yet found a better standard by which to measure human effort than the yellow metal.

### *Gain in World RESERVES of Gold*

Although only about one-half of the world's gold production of late years has been consumed for monetary purposes, or

a much smaller proportion than previously, the actual increase in production is reflected in the larger reserves of gold. By reserves is meant the visible supply of gold coin and refined bullion in the government treasuries and banks of the different countries.

Here again we find the United States leading all other nations of the globe. Our gold reserve jumped from 424 millions of dollars at the close of 1889 to 1411 millions at the close of 1910—an *increase* for the United States of **232** per cent, compared to 170 per cent as the increase for all Europe (including the continent and the United Kingdom).

America—and by America I mean the United States of America—*has the greatest visible reserves of gold ever in the custody of any one nation since the dawn of time.* Our reserve is more than *DOUBLE* that of either France or Russia, and more than *SEVEN* times that of the United Kingdom. Countries other than those named simply are “not in it” with America in this respect.

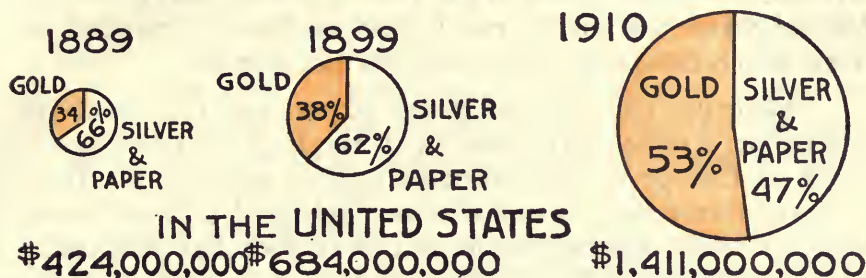
Indeed, the American gold reserves are about two-thirds as much as the reserves reported for the entire continent of Europe, which has over four times our population! And the pressure to get into the reserves every possible dollar of gold, is much stronger over there than on this side of the Atlantic.

The American reserve was \$14.79 per capita at the close of 1910, compared to \$5.13 per capita as the average reserves for all Europe. Indeed, France is the only European country that has greater reserves of gold per capita than the United States. Our reserves per capita are upward of four times the gold reserves of the United Kingdom!

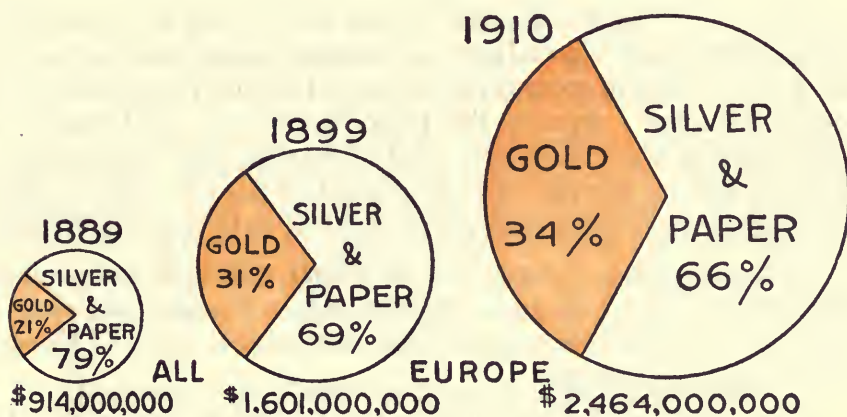
### ***The Total STOCK of Gold Money***

Under this heading is included both (a) the gold in *reserves*, and (b) all the gold in *circulation*. The latter classification embraces all the gold in the custody of the public, other than the supplies in the treasuries of reporting nations and banks. Observe well that “total stock” means all gold, whether in or out of the visible reserves.

### Progressive Development of Gold Reserves



The chart shows that in 1889 the total amount of gold in the reserves of the United States was only 424 millions, whereas it is now three and one-half times as much. Then gold reserves constituted only 34 per cent, the balance of our money being silver and paper. At the close of 1910, gold had risen to 53 per cent, while silver and paper had fallen to only 47 per cent.



The lower chart is a similar exhibit for all Europe, including the United Kingdom of England, Scotland, Wales and Ireland, and all the continental countries. Their gold reserves increased from 914 millions some 30 years ago to 2,464 millions at the close of 1910. But it will be seen that only about one-third of European money is gold, the balance being silver and paper.

Both these charts are based on official data covered up in the tables of the United States mint report for 1911.



The total stock of gold in continental Europe at the close of 1910 approached 3,500 millions of dollars, compared to 1,710 millions as the total stock in the United States; that is to say, the United States has half as much gold as those continental countries, which have over four times our population.

While our *stock* of gold is \$18.35 per capita, it is only \$8.20 in Europe, a trifle more than \$14 in England, and averages only \$8.77 for Europe and the United Kingdom combined. Thus we have relatively more than twice as much gold as those countries have. Canada approaches us in this respect, but nine-tenths of her stock consists of United States gold coin.<sup>10</sup> Only France and Australasia have more gold money per capita than America.

The stock of silver money shows but slight increase since 1890. Europe reports about 1,200 millions of dollars in silver money now, compared to 729 millions in the United States, giving us \$7.83 per capita, compared to \$2.79 for the continent and United Kingdom.

### ***Relation of Gold to Volume of Paper Money***

*Reserves*—In the United States at the end of 1910, there were outstanding 684 millions of dollars in national bank notes and 346 millions in treasury notes, or a total of 1,030 millions of dollars in paper. Against this paper there were gold reserves to the amount of 1,411 millions. All of Europe had outstanding at the same time 4,135 millions of dollars of paper money, against which there were gold reserves in sight of only 2,426 millions.

That is to say, for each \$1 of paper currency outstanding, America had \$1.37 in gold reserves, while Europe had only 57 cents! Our gold reserves are more than double those of Europe, relative to paper money.

*The total stock* of money in the United States at the date cited was of gold 1,710 millions of dollars, silver 739, paper 785, making a total of 3,234 millions. The aggregates for the continent and the United Kingdom show that all Europe had of gold 4,140 millions, silver 1,318, paper 4,135, total 9,593 millions of dollars. With about five times our population, those countries only have three times our amount of money.

Therefore, every 100 cents of American money was made up of 53 cents in gold, 23 cents in silver and 24 cents in paper; whereas for every 100 cents of European money, there was an average of only 43 cents in gold, 14 cents in silver and 43 cents in paper. Thus the proportion of gold in each American dollar is almost **25% greater** than in the European dollar, the American dollar has 57 per cent more silver than the European unit, while our American dollar contains only about *half as much paper* as the European dollar!

Or, to put it in another way, the American dollar consisted of **76** cents metallic money—two-thirds thereof being gold, and only 24 cents paper; whereas the European dollar is only **57** cents metallic money and 43 cents paper. Thus our money is one-third more metallic than is European money, while the latter contains 58 per cent more paper than does American money.

*America is on a hard-money basis, while Europe approaches RELATIVELY a soft-money basis.*

And of the 24 cents "paper" in the average of all American money, at the date referred to, 21 cents was covered by United States bonds bearing 2 per cent interest, which by my method are now to be transmuted into American money. That left hardly three cents of fiat in the American dollar!

It will surprise the American people generally, and students of the subject in particular, to realize that the volume of paper money is more than five times as much in Europe as in America! Of course, considerable of this money is "covered" by gold, but the so-called "uncovered" paper in Europe is \$8.76 per capita, or relatively about the same as in this country—\$8.40 per capita.

### ***Relation of Gold to Loans and Discounts***

The total stock of gold in the United Kingdom is equal to about 21 cents for each dollar of loans and discounts, compared to 13 cents in the United States.

But if we compare only the gold *reserves*—and this is the true comparison—the astonishing fact is revealed that the gold

reserves of the United Kingdom at the close of 1910 were equal to only *six* cents on each dollar of the total loans and discounts reported by all the banks of England, Wales, Scotland, and Ireland combined. In the United States, on the contrary, our gold reserve was almost *eleven* cents for each dollar of the enormous volume of loans and discounts outstanding.

What an astounding fact this is! What a flood of light it throws upon the stability of the American financial position! How gratifying to realize that, although American loans and discounts at the close of 1910 aggregated almost 13,000 millions of dollars—four times those of the United Kingdom—the gold in sight in this country was about *twice as much for each dollar of that indebtedness* as was the case with our British cousins!

The commercial and industrial business of the United States, as measured by loans and discounts, has gained more than threefold during the past thirty years. By the same test, business in the United Kingdom has not even doubled. The data for the continent of Europe pertain only to loans and discounts in the one governmental bank for each country, exclusive of the many other banks that make the bulk of commercial loans, but the increase there evidently has been even less than in England.

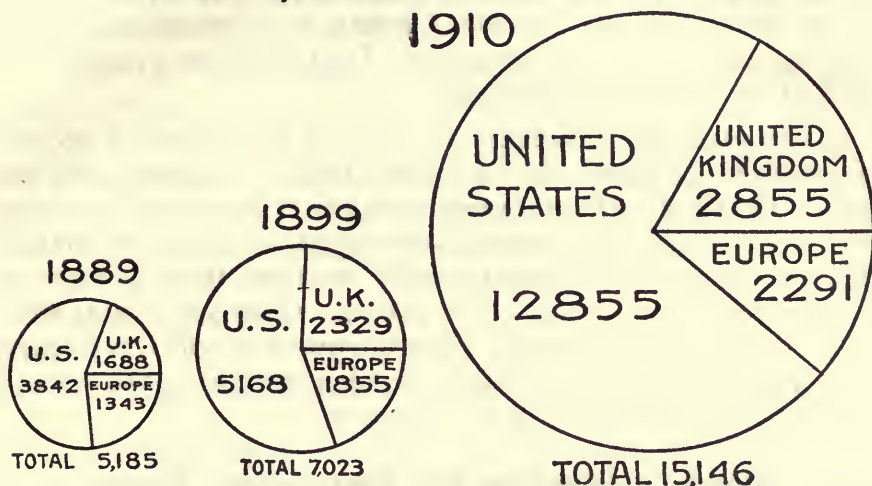
To speak exactly, the loans and discounts reported for the United Kingdom show an increase of 69 per cent, and of the continent 71 per cent, compared to the stupendous increase of 234 per cent in the United States.

In view of these conditions and the marvelous industrial development of modern times, it is not surprising to find that loans and discounts reported for all the banks in the United States are four times the total for the United Kingdom.

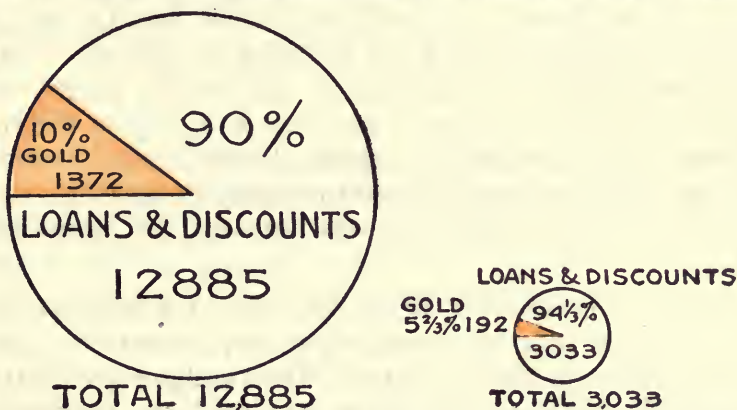
These borrowings by the American people make an average of \$138 per capita, compared to \$167 for England, \$145 for Canada, and \$156 for Australia. This is statistical proof of the usual assumption that business is more active in new countries than in old.

If we deduct the total stock of money per capita from the loans and discounts, the remaining net indebtedness at the close



**Growth of Business in Three Decades**

The above charts show in millions of dollars the total amount of loans and discounts outstanding by all the banks in the United States on the last day of December, 1889, ten years later, and the same date for 1910. Similar data is given for all the banks in the United Kingdom—England, Wales, Scotland and Ireland combined. For the continent of Europe, loans and discounts are reported, on each of the three dates, only for the one national or government bank in each country.

**Proportion of Gold Reserves to Loans and Discounts**

The larger circle shows that the loans and discounts of all banks in the United States as of 31 December 1910 amounted to 12,885 millions of dollars, or more than four times the 3,033 millions reported by the United Kingdom.

The gold reserves in the United States at that date amounted to 1,372 millions or 10 per cent of the total loans and discounts, whereas the United Kingdom had gold reserves only to the amount of less than 6 per cent, or 192 millions of dollars, against her much smaller volume of loans and discounts.

of 1910 was in round numbers: England \$47 per capita, United States \$103, Australasia \$107, Canada \$115, while the wealth per capita was for England \$945, United States \$1,400, Australasia \$900 and Canada \$700.

The loans and discounts in America are a sign of growth, of progress, of development, unparalleled in commercial history. They reveal the inherent strength of America in contrast to other nations. Of course, over-expansion is to be guarded against, but our condition is vastly stronger than that of our British competitor or any other nation. Germany's fiscal situation is extraordinarily weak; her economic and political strength is accounted for by the efficiency of her people in the sciences and arts, and even more in co-operation.

### ***World's Showing for Twenty-one Years***

The gold production in 21 years for the whole world comes within a bare fraction of being an even 6,000 millions of dollars. A trifle more than one-fourth of it was used for industrial purposes, leaving about 4,500 millions as the addition to the world's stock of gold coin and bullion during that period. The stock in continental Europe, in the United Kingdom and the United States, gained about 2,540 millions, or an average annual increase of a trifle more than 120 millions of dollars. That is to say, the much-heralded increase in the world's supply of gold resulted in adding less than 5 per cent annually to the stock of gold monetarily available in these old-established commercial countries. The increase in their monetary stocks consumed only 56 per cent of the supply that was not used for industrial purposes.

The great question is, What became of the other 44 per cent of the increased supply, amounting to approximately 1,700 millions of dollars in the 21 years? Our tables show that India absorbed 563 millions and Egypt 211 millions, or nearly half of the quantity to be accounted for. In those countries, this vast quantity of gold seems to have dropped out of sight, being hoarded or used for ornaments. As neither India nor Egypt report any material increase in either their gold reserves or stocks of gold money in use, the conclusion is irresistible that

these countries are becoming a sink-hole for gold, much as India has long been the sink-hole for silver.

In the rehabilitation of South American finances, nearly 343 millions of gold were consumed during the eleven years ended with 1910, while Japan and Mexico together account for almost another 100 millions. This leaves only 476 millions of dollars in value of the world's production during 21 years to go into other banks, monetary circulation and hoardings other than those noted—these other unaccounted-for uses consuming only about 22 millions annually.

### *America's Showing for Twenty-one Years*

In the twenty-one years ended with 1910, gold coin and bullion have been added to the reserves in the banks and treasury of the United States by the sum of 987 millions of dollars. But the United Kingdom—England, Wales, Scotland and Ireland combined—added only 67 millions. Uncle Sam, therefore, *gained fifteen times* as much gold as did Johnny Bull.

Of the increase in continental Europe of 1,464 millions during this period, Germany gained 100, Austria Hungary 242, Spain 50, Netherlands 26, France 387, Italy 150, and Russia the enormous sum of 427 millions. This accounts for 1,382 millions, leaving 82 millions as the gain of all other European countries.

The United States increase of 987 millions in twenty-one years exceeds the combined increase of Russia, France and Italy. Our gain was *ten times* that of Germany. The United States gained in the two past decades as much gold as did all of continental Europe, exclusive of Russia and Spain.

It is a fact of the most profound moment that in these twenty-one years the reserves in the United States have gained *fifteen times* as much gold as the reserves of the United Kingdom! And it is of the gravest significance to Britain that at the close of 1910, her reserves of gold were only 67 millions larger than they were twenty-one years before. Yet she presumes to control the major part of the world's foreign trade, and therefore might be expected to enrich her gold reserves corre-



spondingly. As a matter of fact, however, she increased her reserves only by a petty seven millions during the past eleven years, so that her gold reserves are barely holding their own. It should be stated, however, that the United Kingdom reports gold in *circulation* to the extent of \$10 per capita, compared to \$3.56 in the United States. But this is not much of an offset to her stationary reserves, since Britain's actual reserves and estimated stock of gold in circulation combined amount to only about one-third the total stock of gold in the United States.

Britain's imports and exports have been one-half larger than the foreign trade of the United States, although we are rapidly catching up with her. America's stupendous gain in gold and trade compared to England is indicative of the financial and commercial supremacy the United States is soon to command in the foreign commerce of the nations of the earth.

### ***Comparison with Other Countries***

The aggregate stock of money in the United States, at the date noted, was \$34.60 per capita, compared to about \$20 as the average for Europe and also England, being exceeded only by France \$45, and Australia \$48. Indeed, the total stock of money in the United States, was one-third as much as in all Europe with more than five times our population.

The aggregate wealth of the United States is twice that of France, or as much as France and Germany combined, and 60 per cent more than England. Our national debt is less even than Germany's, only about one-quarter England's, and about one-sixth that of France. If from the estimated total wealth we deduct the national debt, the net wealth of the United States was \$1,387 per capita in January, 1910, about the same as for France, compared to \$932 for Germany, all other countries being much less.

Our national expenditures per capita are only half as much as in France and are 50 per cent less than England's, while our debt of \$11 per capita compares with France \$151, Germany \$17, England \$81, Canada \$54.

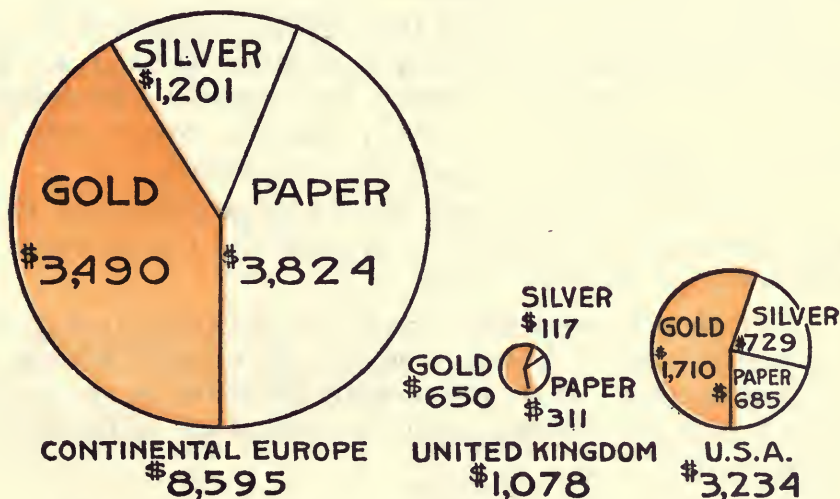
## The Combined Stock of Money of All Kinds

On 31 December 1910, charted from data in United States Mint report for 1911.



### The Total Amount of Money per Capita

and how it is divided between gold, silver and paper money. Observe that while continental Europe, also the United Kingdom, have a total of only about \$20 per capita, the money supply in the United States is now about \$35 per capita. Thus America has nearly three-quarters more money for each man, woman and child than have the older countries cited.



### The Total Stock of Money (the figures are millions of dollars)

Compare the population of these three countries at the close of 1910, as given in the full-page table in addenda, in order to realize the full significance of the lower charts. With about four times the population of the United States, Europe had only twice the gold but nearly six times as much paper money. The comparison would be still more favorable to the United States if the table in the United States mint report, from which this exhibit is designed, had stated the volume of paper money outstanding in Russia.

Our total foreign trade has been excelled only by Germany and England, for the current fiscal year will probably considerably exceed that of the Fatherland, and within ten years will equal the foreign trade of the United Kingdom. Whereas her foreign trade is \$120 per capita, ours is only \$38, but our home trade is upward of \$4,000 per capita annually, which is probably twice if not three times that of England's.

### ***Final Conclusions Extraordinary***

We now see that America has more than twice as much gold for each dollar of paper money outstanding, as has all Europe, including the United Kingdom, while we have twice as much gold relative to our loans and discounts as has Britain alone. These facts have never before been revealed fully, and will have a profound influence upon opinion and expert judgment upon both sides of the Atlantic.

Add to these new factors the gigantic proportions of our stocks of gold and visible reserves of the precious metal, and the veriest tyro will recognize instantly the tremendous advantages, financial and otherwise economic, America enjoys over the European countries.

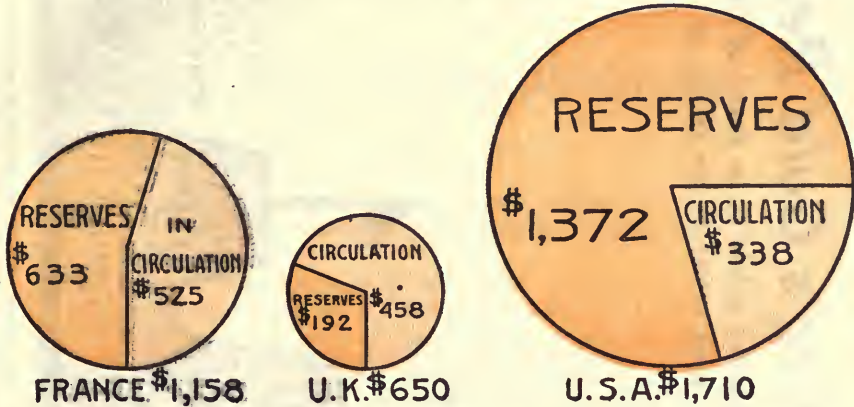
In natural resources, both those now available and those which have not yet been even scratched, the United States is vastly ahead of all other nations.

Viewed from every angle, therefore, American money and the material bases of American finance, are superior to those of any other country. If we also compare the character and health of our people, the showing is still more favorable to the United States.



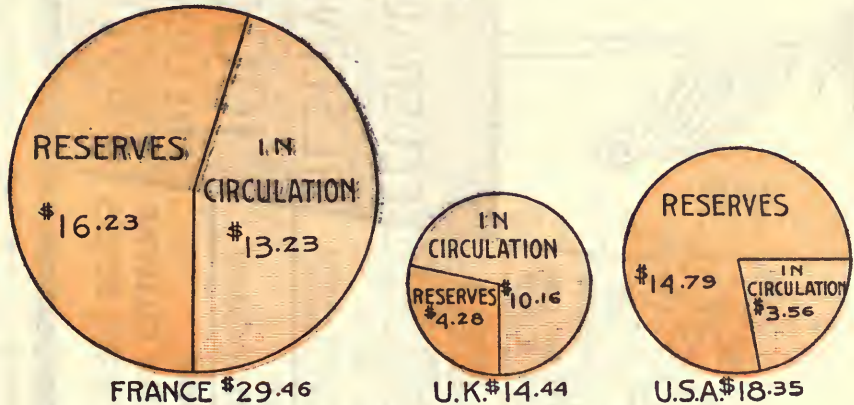
### Total Gold and Its Location

The figures in this first chart are round millions of dollars



On December 31, 1910, as reported by the United States mint tables, the total stock of gold in France was 1,158 millions of dollars, of which 633 millions were in the visible reserves, and the balance of 525 millions were in non-reporting banks, in hoardings or in circulation. The figures for the United Kingdom and for the United States are given. Each whole circle shows the relation of total quantity of gold and of its distribution, in each of the three leading commercial countries having the largest stocks of gold.

### Total Gold per Capita Compared



Here it will be seen that France leads, her total stock of gold amounting to \$29.46 for each man, woman and child in that country, compared to \$14.44 in the United Kingdom and \$18.35 in the United States, but it will be seen that America's reserves per capita are almost as great as in France, although we have millions upon millions more people.

# America's Gold Reserves

*Showing what is in front of them,  
and what backs them up*



**CO-OPERATIVE RESERVE**  
UNITED TO ASSIST, NOT COM-  
BINED TO INJURE:

**CHARACTER RESERVE**



**HEALTH RESERVE**

WELL BODIES, SOUND MINDS  
FIRM WILL, HAPPY SOULS

**GOLD RESERVE**  
\$1,850,000,000

**LAND RESERVE**  
CROPS WORTH TEN BILLIONS  
3,623,000 SQUARE MILES

**FEDERAL RESERVE**  
**1000 MILLIONS GOLD**

**A. R. U. RESERVE**  
**500 MILLIONS**

**BANKS RESERVE**  
**250 MILLIONS**

**100,000,000 ORGANIZED AMERICAN PEOPLE**



Uncle Sam, with a mien indicative of poise, strength, power, yet not assertive nor combative, remarks: "Now, that is the best arrangement of America's gold reserves. In front, I have 100 million citizens, thoroughly organized and with 100 millions of dollars of gold in their pockets or hoardings. Then I have 250 millions of dollars in gold in the banks. Behind them are 500 millions more in

the American Reserve Union. Back of this is twice as much in our national treasury, 1,000 mil- lions. And while this is the biggest bunch of gold on earth, it is small compared to America's other reserves that back up this whole nation—land, health, character, co-operation! I am satia- fied the American monetary method now proposed is the best on earth."

**Chapter XXI**

***America's Triple Reserves  
of Gold***

***Impregnable position of the United States***

***How its pre-eminence in gold may be still further  
strengthened***

***Volume of the triple gold reserves***

***Three-fold character of our gold reserves***

(1) In the federal treasury 1,000 millions of dollars, or a reserve of 50%

(2) In the American Reserve Union 500 millions

(3) Held by state and national banks 250 millions

***Ample lawful money reserves for the banks—gold, silver and  
legal tender***

***Vastly lessened demand for gold***

***America may dominate the world's finance and economics***

***Still further safeguards provided***

***Apply modern credit instruments to world trade***

***A proposition that can be carried out***

***Elementary principles re-stated***

***Leave the gold standard alone***

***The final result***

**T**HE impregnable position of the United States, with respect to both its total stock of gold money and its visible reserves of gold coin and refined bullion, may now be comprehended as a result of the foregoing studies.

By means of the co-operation in finance advocated by this work, America's position becomes even stronger for the future. If the country has attained its present enviable pre-eminence in gold, in the face of a wretched fiscal system, what may not be accomplished by the United States during the ensuing five, ten and twenty years under a fiscal method commensurate with the position, resources, enterprise and character of the American people!

***Threefold Character of Our Gold Reserves***

For we come now to a recognition of the further insurance of stability which is afforded by the threefold character of gold



reserves in the United States. This point will be clearly understood from an analysis of the present location of the various constituent parts of the stock of gold money in the United States. That analysis constitutes table B in the addenda, to which the student of details is referred, instead of cumbering the present page with statistical exhibits.

Since the exchange of government money for the 2 per cent bonds and the bank notes issued against the same will be accomplished only in a very gradual manner, over a considerable period of time; and since the changes in the location of gold coin required by the method herein proposed also will be effected gradually, it is conservative to conclude:

### ***Volume of These Gold Reserves***

1. That the federal treasury will continue to hold a reserve in gold coin and refined bullion averaging about **1,000** millions of dollars. This will be equivalent in amount to substantially one-half the total volume of American government money outstanding against the same. In other words, there will be a national gold reserve aggregating about 50 per cent of all the government money issued against all the gold and silver and bonds in the federal treasury.

2. There will be approximately **500** millions of dollars in gold coin deposited in the treasury of the American Reserve Union by its member banks, including both national and state banks.

3. There will be in the neighborhood of **250** millions of dollars in gold coin in the vaults of the national and state banks throughout the United States.

4. The amount of gold remaining in the pockets and hoardings of the people will be probably about **100** millions of dollars, if not more.

### ***Decreased Demand for Gold***

5. National banks will then hold in their own vaults reserves in gold money, silver money and legal tender, to an

aggregate amount equal to from 10 to 15 per cent of their deposits subject to reserve requirements. And this after having "taken care of" their demand obligations to state banks and trust companies! This will be *in addition* to the 7 per cent reserve in gold which each bank will have deposited in its zone league, subject to the control of the American Reserve Union. •

6. Each state banking institution will also have tremendously strengthened its own position by increasing its reserves through the receipt from national banks of lawful money for part or all of the sums due the state institutions from the nationals.

7. The national banks having authority to issue credit currency to meet the further demands of trade, all banks and banking customers having much more highly perfected the use of book credits, and all commercial banks being effectively associated through their respective clearing houses, the demand for gold will be vastly reduced.

### ***Dominate World Economics***

For the first time in the history of the world, a nation would be provided with a triple reserve in gold, as well as the greatest quantity of gold ever brought together. And this triple reserve would be further protected against raids, and its constant accretion would be assured, by the most perfectly organized representative federation of bank owners and of bank users.

Let the United States put this idea into effect forthwith, and panics will become a thing of the past, domestic prosperity will develop rapidly but soundly, and our commerce with the world will rapidly advance to a commanding position.

### ***Still Further Safeguards***

The production of gold in the United States and its possessions will continue to increase as the years roll on. My own intuitions forbid the judgment that our domestic supply of gold is to witness any serious diminution in volume, actually or relatively.

The American Reserve Union will enable the finances of the American people to operate in such fashion as to attract gold from other parts of the world, and also to hold on to such gold so far as it may be economically expedient so to do.

And lastly, as a still further safeguard, the United States treasury could, in an emergency, sell from its holdings of the 2 per cent bonds, which then would yield 3 per cent, and thus could add correspondingly to its reserves of gold. And in the final analysis, there always remains the power of the government to make a new issue of bonds with which to purchase gold in case of dire need.

It is not too much to predict, therefore, that by 1925, the visible reserves of gold coin and refined bullion in the United States would equal **100** per cent of the American government money then outstanding, including both silver and all forms of paper money.

### ***Apply Credit Instruments to World Trade***

And when America dominates the commerce and finance of the world, as she will do within a decade if this American monetary method is so perfected and applied as to accomplish its purposes, then it will be possible for the United States to inaugurate a momentous reform in international exchange. Just as the use of book credits and of bank checks and "clearings" has made possible the almost unlimited increase in number and volume of transactions in domestic trade, just so will international trade be infinitely expanded by an equally efficient use of credit instruments in effecting exchanges between the peoples of different countries.

With great rapidity the world is growing smaller. Present means of communication and transportation are to be simplified, cheapened and perfected in the next twenty-five years, as much as they have been during the past 100 years. The characteristic of the twentieth century is the getting together more and more closely of all the peoples of the earth. Let the United States lead in this peaceful evolution of the world's economic and financial development, and her service to civilization will be beyond human comprehension.



### ***A Proposition that Can Be Carried Out***

It is entirely feasible, practical and relatively easy for the United States now to establish a monetary method and universal system of banking that will enable America to attain this world-wide pre-eminence.

This method, beginning with the humblest citizen, enables all individuals and corporations, interests and parties, to co-operate for their own benefit and for the common welfare throughout the length and breadth of the United States. The system of national American export banks, supplementing our unrivaled triple reserves of gold, will make it possible to confer upon the rest of the world much of the benefits that will accrue to our own people from the use of scientific methods in the art of exchange.

### ***Elementary Principles Restated***

The yardstick is the standard for the measurement of fabrics. The foot measure is the standard for the measurement of distance. The pound is the standard for the measurement of weight. The gold dollar is the standard for the measurement of values.

But no one wants a yardstick with every yard of cloth. No one desires a foot rule for every foot of distance traversed. No one wants a pound weight with every pound of merchandise. No one wants a gold dollar for every dollar in value of labor or commodities exchanged.

What everyone does want is to feel and know that the yardstick is a true and correct unit, that the foot rule is an accurate measure, that the weight used is the true pound, that the gold dollar is the established and universally recognized standard by which to measure values.

### ***Leave the Gold Standard Alone***

Let there be no tinkering with the gold standard, at least until man evolves something much better.

As we have already shown, the increased production of gold is by no means solely responsible for higher prices of commodities; for the proportion of this increased supply of gold which has been used for monetary purposes by the older commercial nations, has but little more than *kept pace with the relative increase in population*, and has *not* nearly kept pace with the increase in the volume of exchanges.

Academic disputation over the gold standard, or attempts to tinker the weight of gold in the standard dollar, are out of place. Practical experience in finance is producing results that far outweigh academic theory. There is no divorce in finance, between science and art, knowing and doing, but there is a wide gulf between results of practical experience and the theories of mere theorists.

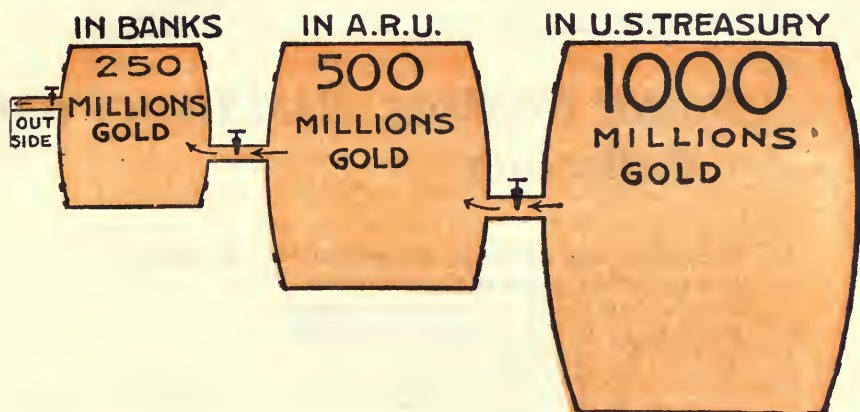
It is probable also that the future will show that the *volume* of all money (so long as all the money is the equivalent of gold), is of relatively small importance, compared to the enormously increased efficiency of credit instruments in effecting exchange. It is in the latter direction that greatest progress is to be made.

### ***The Final Result***

Let all money, also all credit instruments, be kept as good as gold, and no one will ever want to use actual gold, any more than they want to use the legal standards for measuring space and weight, which are maintained by every state or government as the standard by which to gauge the yardsticks, foot rules, weights and other units of measurement actually in use among the people.

In the last analysis, human effort is the standard of values, and gold is but its concrete expression. Even the present uneconomic carrying of physical gold back and forth between nations will become less, the more that international exchanges are improved by the use of international credit instruments.

It is not impossible for the American monetary method, and our national American export banks, to inaugurate what may develop into a clearing house system for the whole world, with benefits to the human race and advances in civilization transcending the power of mind even to imagine.



### ***Our Threefold Reserves of Gold***

When the American monetary method herein proposed is in full effect, say within a year or two, our threefold gold reserves may then be compared to the triple reservoirs above shown. The outside demand for gold would first be met from the stock in the vaults of banks, but before such stock could be exhausted, the banks would begin to draw on the American Reserve Union. And long before its supply got very low, the Union could replenish its reserves from the national reservoir. In case of the most powerful assault and long persisted in demand, there would still be a comfortable reserve left in each of the three reservoirs, below the level of the outlets indicated.

As a matter of fact, gold would flow instantly to the point of need, as pictured on page 137. This would at once placate the demand for gold; promptly thereafter so much of the metal as had been paid out would flow back into the banks, then back into the American Reserve Union, and when its reservoir was filled to the limit, the surplus would run back into the United States treasury. Thus the flow of gold would automatically regulate itself in harmony with scientific principles.



**Chapter XXII****Postal Banking, Remittance and Collection*****Successful beginning of the postal savings system******Lessons of its present development******Remove all restrictions upon deposits******Provide by law for their investment***

- (a) One-third in liquid form
- (b) One-half of the remainder in national land bank bonds
- (c) The balance in mortgages upon farms and homes owned and occupied by their owners

***Caution against mistakes of foreign governments******Reform in postal money order******Conveniences that should be embraced in the new UPOs, or Universal Postal Orders******The necessary instrument perfected by the author******Postal service only in its infancy***

**T**HE postal savings system has come to stay. The number of depositors, and the amount of their savings is constantly increasing. In a few years these deposits will reach 500 millions of dollars, and then will go on increasing.

The act of Congress, 25 June 1910, established postal savings only upon the condition that not less than 65 per cent of the deposits in any postoffice should be re-deposited in the commercial banks in the vicinity, so that these savings may be employed at the point of origin, preferably for productive purposes, although not so stated in the law. Of the balance of postal deposits, the law requires that 5 per cent be set aside as reserve, and the remaining 30 per cent is available for investment in postal government bonds bearing  $2\frac{1}{2}$  per cent interest. As of 1 September 1912, about \$1,300,000 had been converted by depositors into postal savings bonds. The balance of deposits at that date exceeded \$23,000,000, or an average of about \$85 to each of 270,000 depositors.

### ***Development of the System***

"It has already been demonstrated that the amount of money which the postal savings system causes to be withdrawn from banks is negligible in quantity, and that a very great proportion of the millions now on deposit represent money that would never have found its way into any bank. Practically speaking, therefore, every dollar deposited by the postal savings system in the banks of the country is so much gained in deposits. This being true, it is further to the interest of the banking institutions to encourage and stimulate this new branch of the federal government. The present limitation on deposits in the United States is much lower than in nearly all the European countries, although the per capita wealth and average income here are much greater."

The amount which any one depositor may deposit in the postoffice during any one month is limited to \$100, and the total to \$500. Both of these limitations should be entirely removed, provided that no interest shall be paid upon any deposit in excess of \$1,000. This would remove all incentive for the transfer of accounts now deposited in banks, and would at the same time enable the system to receive large sums of money now hoarded by persons who will not avail themselves of the ordinary banking service, and to whom the question of interest is an unimportant consideration. "If the law is modified in this manner," writes Mr. Weed, the director of the postal savings system who is quoted above, "I am convinced that when the system is fully established, many millions of dollars now in hiding will be added to the circulating medium of the country and become useful in the channels of trade."

The postal savings bank pays depositors 2 per cent interest. The money is re-deposited in commercial banks which pay  $2\frac{1}{2}$  per cent interest, but such banks have to put up as collateral for these deposits, national bonds at par, state bonds at 90, or municipal bonds at 75 per cent of their market value, and at not to exceed their par value. The only acceptable bonds are

those which are supported by the taxing power. Of the \$53,000,000 in bonds now on deposit with the treasurer of the United States to secure postal savings deposits, 69 per cent are municipal, 14 per cent United States, 12 per cent state and 5 per cent territorial bonds. Funds are apportioned among the different banks as qualified. The bank must be organized "under national or state laws, and be subject to national or state supervision and examination." Thus private bankers may not receive postal deposits.

### ***Investment of Postal Deposits***

The law is very deficient in not providing that these postal savings deposited in national and state banks be invested in the manner which national or state laws provide for the regulation of savings funds. Instead of needlessly tying up millions of money in national, state and municipal bonds, as security for postal deposits, each bank receiving such funds should be obliged to invest two-thirds of the total in accordance with the state law governing savings bank investments, or in the absence of such state enactment, the federal law should apply.

In most states which have savings bank laws, giltedge mortgages on improved real estate are the favorite investment for savings funds. The great bulk of postal deposits should be invested in this manner. The best, simplest and most attractive form of such investment will be in the land mortgage bonds issued by the national land bank for each state. By reason of the precautions in the system hereinafter set forth (Part Six), it will be seen that these national land bonds possess every element of safety, combined with a fair rate of interest.

### ***Employ Postal Savings at Home***

The federal law imposes no restriction as to the employment of postal savings when re-deposited in other banks. Of course a sufficient proportion thereof, say one-third, should be kept in "liquid" form, such as short-term loans on prime commercial paper, so as always to be available for meeting withdrawals, but a large part of the balance may be invested safely



in national land bonds (which are always salable and available), or directly in carefully selected mortgages.

Unless this rule is enforced, there is danger that postal deposits, as well as the increasing mass of deposits in the savings departments of national banks, will be withdrawn from real estate purposes, for employment either in ordinary commercial business or for speculation on the stock exchange.

The savings department of any bank authorized to receive postal deposits should be permitted to invest the same in choice mortgages suitably secured. But let it be provided that in making such loans, substantially one-half of the deposits available for mortgages should be loaned upon productive improved farms, preferably those occupied and worked by their owner for agricultural purposes; and in loaning the balance, give preference to first mortgages upon homes occupied by their owners. Such farms and homes should be within the locality of origin of deposit, or within a reasonable radius therefrom.

Upon all such real estate loans, the borrowers should be obliged to pay a reasonable sum on the principal annually, so as gradually to reduce the mortgage and improve the security. This amortization should be at least the sum required by the national land bank for that state. Such amortization has the additional advantage of increasing the funds available for loans upon other farms and homes, while stimulating the borrowers to pay up as rapidly as possible, and thus to own their own homes and farms free and clear of all encumbrance, as described in Part Six hereof.

### ***Caution Against Mistakes***

It is in the highest degree wise and patriotic thus to provide that postal savings deposits shall be employed largely in enabling the people to own their own farms and homes. Indeed, I would reduce from 30 per cent to 10 per cent the proportion of such deposits that may be invested by postal depositors in United States postal bonds bearing  $2\frac{1}{2}$  per cent interest, thus leaving 85 per cent thereof instead of 65 per cent for employment at point of origin, and to earn 3 or 4 per cent instead of  $2\frac{1}{2}$  per cent.

The public and the Congress should ever recognize the importance of protecting against the mistake which has caused more harm than good by the postal savings systems in some countries. One reason for the rural poverty and agricultural depression in Great Britain is the fact that for generations the people's savings have been sucked up by the postoffice, sent up to London, invested in government consols, and the money used upon the army and navy. As the volume of postal deposits increase in America, there will be a corresponding increase in the temptation for the national government to use these sacred savings of the thrifty for federal purposes—a tendency which should be strictly restrained.

### ***Reform in Postal Money Orders***

It is strange that no convenient means exists for safely remitting by mail petty sums. The postal money order is so inconvenient, expensive, cumbersome and relatively inaccessible as to be nothing less than a stale joke, from the standpoint of modern business efficiency and scientific economics. It is so inferior that its use has been largely supplanted by express money orders, but the latter are also open to many objections. The banker's money order is some improvement, but has not come into general favor for remitting petty sums.

The absence of any convenient form for mailing small sums is a blot upon our civilization. At present there are only three ways of remitting a petty sum by mail:

1. In the form of postage stamps, which get all stuck up, are not legal tender, may occasion loss to sender and remitter, are not always available, are not acceptable to many merchants, and will not even be accepted by the government itself. Some concerns receive great quantities of stamps instead of money and have to sell the same at a discount of from 1 to 3 per cent, entailing a loss of from a few hundred to several thousand dollars a year to each concern.

2. Or coin may be sent in a letter, but this is dangerous; the coin easily wears through the envelope, and is a constant temptation to theft.

3. The only other method is that of going to the postoffice or express office, paying in the cash for a money order, having it made out, inclosing it in letter, and then having it collected by the recipient, either direct or through a bank. Not only is all this inconvenient, but the fees charged for postal or express orders are relatively excessive.

These fees amount to an average tax of 1 per cent. Not only are you put to inconvenience to get existing money orders, but in addition thereto you are taxed an average of 1 per cent on the principal of each remittance. Now, from the time you pay in your cash for your money order until the recipient collects it, averages about five days; consequently this tax of 1 per cent on the principal of each remittance is equal to the usurious rate of 73 per cent interest per annum!

### ***Universal Postal Order***

What the public desires and should have is a simple form of universal postal order that shall embody the following points:

1. It must possess all the safeguards of a postal money order or express money order, or bank money order.
2. Be good anywhere at any time.
3. May be made payable to bearer or to order.
4. May be available as a check for local use.
5. It should be the equivalent of a universal bank draft, good at par in any part of the United States without charge for collection.
6. It is in fact a certificate of deposit.
7. It should be furnished in denominations of 10c, 25c, 50c, \$1 and \$2.
8. It should be sold at par at every postoffice and postal substation in the United States, also in all banks, stores and offices that are willing to handle it.



9. It should be so designed as to cut out the mass of clerical work, accounting and expense involved all along the line in the present money order system.

10. Let it be so prepared that it is practically impossible for it to be raised, lowered, altered or counterfeited.

11. It may also be used as a letter of advice, or as an order for goods, thus doing away with unnecessary correspondence.

12. It serves as a perfect voucher or receipt of the transaction it represents.

13. It should save depositors all the fees now charged by postoffice or express company for making out money orders, such fees being equal to an excessively high rate of interest.

14. Universal postal orders, or UPOs, as the public will call them, should be in a form that everyone may have a few in their pocket, so that one can fill it out and use it at will, instantly. This saves all the trouble, bother, delay, inconvenience and expense of going to postoffice or express office, besides saving their fees.

15. When ordering anything by mail, it enables one to record where one saw the advertisement of the article—an important point to consumers, advertisers and publishers.

16. The UPO for sums of 10c, 25c, 50c and \$1 may even be incorporated in a postcard that will go for 1 cent, thus saving the bother of getting an envelope in which to inclose the order, besides saving half the postage.

### ***The Necessary Instrument Is at Hand***

The author has invented an instrument which embodies all of the foregoing attributes. He will gladly donate the same to the United States whenever the Congress sees fit to authorize its universal employment by the postoffice department. This new instrument also possesses all of the advantages suggested in the excellent postal check designed by C. W. Post.

The object of my invention is to provide a new and improved instrument for the simple, easy, convenient, safe and

economical transfer of money or values in a round sum, or in any fraction of \$1 which may be expressed in multiples of five. To the functions individually or collectively incident to the bank draft, certified check, bill of exchange or personal check, the UPO unites the attributes of a certificate of deposit in the postal savings bank, but does not draw interest thereon. Combined with all these features, but without interfering with them or limiting their usefulness, the object of the invention is also to supply a convenient form for making purchases with the money the instrument represents, and to furnish a complete record of the transaction. These instruments may be so colored and numbered, with different sizes for the several denominations, as to vastly simplify counting and accounting. Yet the UPO is not money, it is not intended to circulate as money, nor is it intended to be used in lieu of lawful money. It could be sold in single pieces or in books of various amounts.

When UPOs are adopted, everyone who has occasion to remit petty sums by mail would buy a few of the little UPOs or have a small book of them in his pocket. Orders for \$1 or less could be sent by postcard. The postoffice would sell UPOs at par and would be free from all further accounting. The cash it received for the UPOs sold would quickly run into millions of dollars. The postoffice being essentially a universal bank, with one single headquarters at Washington, the receipts for UPOs sold and the money paid out for the same daily or weekly, would just about balance. As a matter of fact, the postoffice would have a large balance of such money to its credit all the time.

### *Postal Service in Its Infancy*

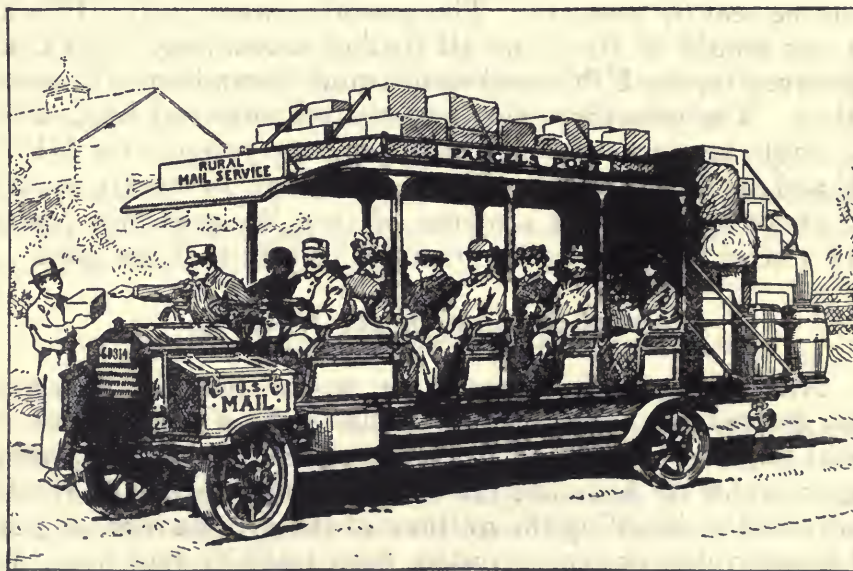
An immeasurable convenience would thus be bestowed upon the public. This would be reflected by a vast increase in postal business, consuming more postage stamps and returning larger profits on first-class matter. The infinite details would be avoided of handling the millions of the present form of postal money orders or express orders, petty trade by mail would be enormously stimulated, and the aggregate great expense of present uneconomic systems for petty remittances would be saved.



The postoffice is but in the infancy of its usefulness. Postal savings, convenience of collection and remittance by mails, a practical system and rates for parcels post, with other improvements, will make our domestic postal service what it should be.

In addition to this, however, there is room for unlimited improvement in our postal service with other nations. The exports by mail for 1909 by Germany, Austria, France, Great Britain, Hungary and Switzerland, amounted to nearly 300 millions of dollars. "In addition to this, these countries did a jewelry-box-valuable-letter export business amounting to over 767 millions." Here was a total foreign business by post of 1,261 millions, as against a parcel post business by the United States for the year 1911 of only three millions.

We need to make our international postal rates and service not only equal but superior to other countries, including insurance, remittances and collections. Down with the barriers!



THE NEW IDEA IN THE MAIL SERVICE

Now that parcels post is a reality, and good roads are becoming more common, it is high time for the United States to operate the motor post coach. Such a service is common in some European countries. It will do much to promote small remittances and collections through the mails. The author originated the above illustration for use in Orange Judd's *American Agriculturist* for Jan. 16, 1909.



## Part Five

# People's American Co-operative Banks

### Contents of this Part

#### Chapter XXIII—Need of Banks for the Masses

|                                                                | PAGE |                                                  | PAGE |
|----------------------------------------------------------------|------|--------------------------------------------------|------|
| Importance of the "common people's" welfare                    | 202  | Foster the ideal of service                      | 206  |
| Two kinds of credit, one demoralizing, the other developmental | 203  | Co-operation imparts safety to banking           | 207  |
| Little banks are helpful as economic and educational centers   | 204  | This kind of banking hardly known in America     | 207  |
| Based on the principle of self-help                            | 205  | An old established success in Europe             | 208  |
|                                                                |      | Only the United States "lags lamentably behind!" | 209  |

#### Chapter XXIV—European People's Banks

|                                                         | PAGE |                                                                                 | PAGE    |
|---------------------------------------------------------|------|---------------------------------------------------------------------------------|---------|
| Why they are successful                                 | 210  | Loans at low rate for long periods on the security of personal character        | 217     |
| Remarkable results in Germany, both in town and country | 210  | The Schulze-Delitzsch bank quite different                                      | 218     |
| Three different types in Europe                         | 212  | Run for profit to the co-operating shareholders                                 | 218     |
| Raiffeisen system of little banks for savings and loans | 213  | Details of management                                                           | 219     |
| Unlimited liability and close solidarity                | 215  | The Luzzatti system accommodates the humblest, and has well-deserved popularity | 220-222 |
| How the Raiffeisen society is conducted                 | 215  |                                                                                 |         |
| Plenty of capital from members' deposits                | 217  |                                                                                 |         |

#### Chapter XXV—Essentials in Co-operative Banking

|                                                                                      | PAGE |                                                                                         | PAGE |
|--------------------------------------------------------------------------------------|------|-----------------------------------------------------------------------------------------|------|
| Instead of a new system, bring existing methods within reach of the common people    | 225  | They will revolutionize retail trade, by substituting cash payments for buying on trust | 228  |
| Purposes of co-operative banking                                                     | 225  | Momentous educative value                                                               | 229  |
| Why the title "co-operative bank"                                                    | 227  | Institutions may also incorporate under state law                                       | 230  |
| What the people insist upon                                                          | 227  | Social service and patriotism                                                           | 230  |
| National co-operative banks will supplement, not compete with, existing institutions | 227  |                                                                                         |      |

#### Chapter XXVI—Plan for American Co-operative Banks

|                                                                                                     | PAGE |                                                                            | PAGE |
|-----------------------------------------------------------------------------------------------------|------|----------------------------------------------------------------------------|------|
| To be formed by the people in any locality                                                          | 233  | Shares, par value five dollars, double liability like other national banks | 233  |
| Amend national banking law to permit co-operative banks to be incorporated and conducted thereunder | 233  | Powers, duties and privileges of the co-operative bank                     | 233  |
| Each state is left free to authorize people's banks under state law                                 | 236  | Supervision and management                                                 | 234  |
| Name and capital                                                                                    | 236  | Detailed reasons for each suggestion advanced                              | 235  |
|                                                                                                     |      | May take over existing small state banks                                   | 244  |

## Chapter XXIII

**Need of Banks for the Masses**

*Importance of the "common people's" welfare*

*Two kinds of credit, one demoralizing, the other developmental*

*Little banks are helpful as economic and educational centers*

*Based on the principle of self-help*

*Foster the ideal of service*

*Co-operation imparts safety to banking*

*This kind of banking hardly known in America*

*An old established success in Europe*

*Only the United States "lags lamentably behind!"*



THE WORLD'S BASIS OF CREDIT

is agriculture and labor. The farmer with the hoe, and the working man with the job, make the whole world smile with prosperity.

**W**HILE it is true that the system of commercial banks in the United States, under both national and state laws, has performed a large service to the American people, for which service the banks have been amply and liberally repaid, it is also true that the need exists for still smaller banking units that will get down to and accommodate the great mass of people in country and town whose resources and business do not justify them in applying to commercial banks. These masses vastly outnumber the customers of all existing banks for commercial purposes.

Now, it is these masses whose financial condition and thrift are quite as important to the nation as is the welfare of people with larger resources—an economic, social and political truth that will be recognized unreservedly.

Those whom Abraham Lincoln designated by that beautifully expressive term, "the common people," are rich in health—physical, mental, spiritual—and in will, vim, energy; eager to work with hand and brain, ambitious to get ahead in the world,

and imbued with fervent patriotism; but being poor in property, not organized to pool their resources, and uneducated in either co-operation or finance, they have no security to offer which the existing type of bank may accept.

This is in no sense the fault of present banks, but is due to these people's lack of association into institutions properly designed to adequately meet their needs.

### ***Two Kinds of Credit***

The poor who most need credit, are sternly denied its use because of this lack of organization and of knowledge. Credit facilities should be furnished to the masses, just as much as these facilities have been so long enjoyed by the classes. It must have been some Shylock with money to loan at high rates to the poor, who gave rise to the proverb, "Who goes a-borrowing, goes a-sorrowing." The saying is all too true for those who are obliged to borrow at usurious rates, but under a proper method credit need not be over-expensive to the poor, or to those of limited means.

When credit is furnished at the right time, in the right form, and at the right price, instead of being demoralizing, it is helpful and uplifting. As Leon Say has again and again insisted: "There are two kinds of credit—one demoralizing, the other educating; one dangerous and leading into mischief, the other largely creative and purely beneficial." The one is usury, the other is what is known among the thrifty and the wealthy as "banking accommodation."

The purpose of the popular co-operative bank is to provide such credit to its members, "so long as they can show themselves to be deserving of credit, not as a matter of favor, but as a matter of business. To this end, to do this successfully, freely and safely, all its efforts must be bent. And, together with facilities for banking, at the same time it must seek to provide a banking education for those who are at present unskilled in the matter, coupled with self-regulating restraints, the intended office of which is, while encouraging legitimate, to shut out improvident



borrowing, to supplement with an effectual protective guard the useful credit instrument provided."

### ***Helpful, Economic and Educative Centers***

Objections have been made to granting the common people full banking rights, upon this old theory that it would tempt them to run into debt. But, forsooth, am I my brother's keeper, that I should assume to arrogate to myself economic powers and credit privileges which I am not willing to accord him? That is a dangerous, undemocratic, condescending, unrighteous, illogical and unpatriotic standpoint.

As a matter of fact, experience shows that the better the facilities for saving, the larger will be the people's savings and the sooner will they get out of debt; also, that what debts they do incur will be for productive and useful purposes.

To enable them to get funds for such purposes, and then to pay these debts, is one of the several fine purposes of co-operative finance.

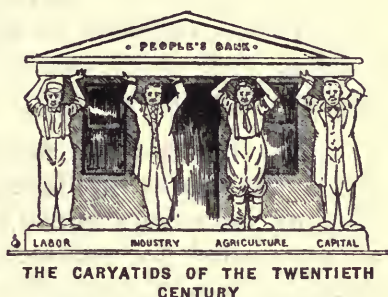
It will enable the farmer to pay off his mortgage, the working man to pay for his home, the small merchant to accumulate capital of his own, all within a comparatively few years, instead of the debt hanging as an incubus about their necks for their whole lifetime. As Henry W. Wolff<sup>11</sup> further says:

"The masses need popular co-operative banks to democratize credit, to make credit and all other banking facilities readily accessible to small folk to whom the ordinary avenues leading up to such benefits are at present closed. That is the distinctive object of co-operative banks. They are to be persistently called upon to take up and practice the small business, which, just because it is small and therefore little remunerative and very cumbersome, the other banks excusably elect not to carry on. They are, in other words, to provide for the million—for poor people down to the very humblest, who show themselves worthy of credit."

These co-operative people's banks must be self-help banks. The American people are ready to take hold and help themselves to organize and conduct such institutions; just give them a chance and they will succeed—without being fed on pap, privilege or pauperism!

By pooling the people's character and resources through its agency, the co-operative bank creates security where none existed before; or rather the security was so subdivided, so attenuated between individuals, as to be not available as a basis of credit. Thus the co-operative bank is formed for service to the masses, rather than to pay large profits on the capital of the few.

This ideal of service, rather than of big dividends, is at the very basis of any form of successful co-operation, particularly in co-operative finance. Associate credit so that it may be realized upon at the lowest possible cost for the benefit of the members, is the real purpose of the co-operative bank, in contradistinction to large returns to middlemen and big profits upon capital.



Instead of the old mythology applied figuratively to modern architecture, it is now the living, breathing, working human representatives of labor, industry, agriculture and capital that support the whole financial structure of this wonderful era in which we are living.

"There *must* be profit, of course, to keep the bank, not only solvent, but advancing, accumulating a larger capital; but that profit should be deliberately kept as small as is necessary for the maintenance of a healthy equilibrium. The main object of the bank must always remain, to render a service to its members, a service of banking and credit as cheap and as readily accessible as can be, and therefore necessarily curtailing profit to a minimum."

### ***Increasing Resources for Credits***

What gives even the little co-operative commercial bank its great advantage over the individual, is not the volume of its cash resources, so much as it is the larger credit those resources command.

Under ordinary circumstances, the commercial bank may safely loan the bank's credit to the amount of several times its cash assets; a reserve of 15 per cent is usually considered a sufficient margin of safety, at least in dealing with current accommodation. An individual with \$1,000 in cash may lend only \$1,000; the bank with \$1,000 free cash may lend its credit to the amount of \$7,000 to \$10,000!

This miracle of credit is not now sufficiently available to people of limited resources, yet they are the very ones among whom most needs to be diffused the priceless benefits of such credits, and of the savings, thrift, progress and debt-paying which are promoted by the proper use of banking facilities.

My own travels, personal observation and close study of rural conditions in foreign countries, especially in central Europe, have emphasized upon eye, mind and heart the wonders accomplished by private initiative in co-operative finance—decentralization through associated effort.

### ***Foster the Ideal of Service***

To all the benefits that accrue from thrift and economic prosperity, are added those other results which are ever superior to the merely material. These results are a fresh illustration of Nature's truth: through service to others, we best serve ourselves, best develop our own character, and promote all Christian virtues.

The members of the European co-operative bank, whether rural or urban, are always enthusiastic over its value. They are grateful for the support it has accorded them, which they appreciate as being far more than the support they have given to the bank.

The co-operative bank *helps*, but does *not* give; and there is all the difference in the world between the two. Self-help strengthens, gift-help weakens.

Instead of separating the classes or occupations, co-operative finance tends to draw them together in one blend for mutual benefit.



"The more various the occupations or interests that enter into the composition of a co-operative bank, the more will periodical demand in one interest dovetail into periodical supply in the other, the more strongly will the component parts accordingly be bound together, the broader will be the basis."

What Wolff so well expresses will be even more true in America than among other peoples.

### ***Co-operation Imparts Safety***

The co-operative organization imparts to the bank peculiar safety, and stimulating educative effects. "The one springs almost naturally from the substitution of the aim of service for that of profit and the common guardianship of the common purse, the other from the open and democratic character which the co-operative method necessarily impresses upon the management."

The wonderful success of local co-operative building and loan associations in the United States testifies to these truths. They have capitalized the honesty, the labor, the frugality of the American workingman, and along with

European experience, have proven that "with equal prudence and intelligence on the part of the lender, loans to the industrious and economical poor, or to people in moderate circumstances, are as safe as those made to any class whatever."



**BANKING BASIS IN A SOUTHERN STATE**

The dots in above chart indicate towns of 3,000 population or more each of which has not less than one national bank. There are also several hundred banks incorporated under the state law. Some of these little banks, both state and national, may be changed over into national co-operative banks when the national banking law is so amended as to permit.

### ***Hardly Known in America***

Yet, imperative as is the need in America of popular co-operative banks for savings and loans, this type has been attempted only in Quebec, and more recently in Massachusetts.

The very successful people's bank at Levis, Quebec, now has many imitators in that province which are doing excellent work.

By the law of 1909, Massachusetts provided for institutions of this character, rather unfortunately named "credit unions," and the first one was formed upon their own initiative by my co-workers in the Myrick building. Both these types seem better adapted to townspeople than for rural needs; experience proves this to be the case.

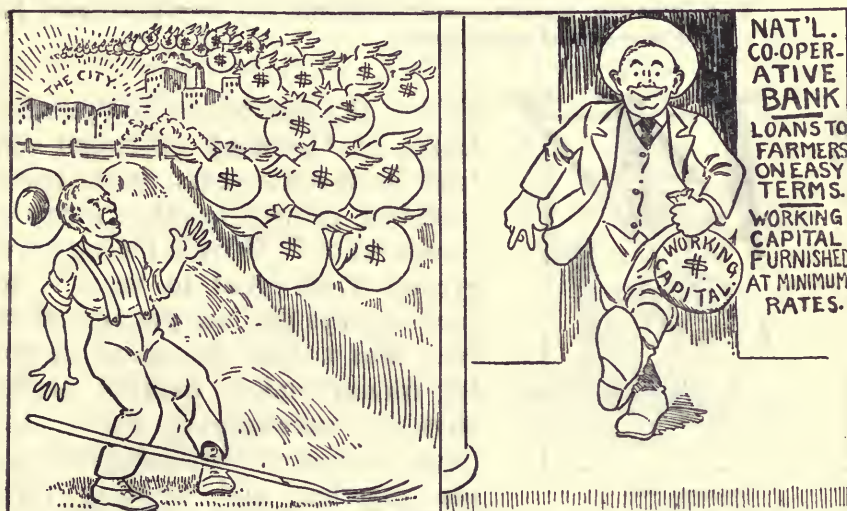
### ***Old Established Success in Europe***

In Europe, on the contrary, co-operative commercial banking along these lines has been developed most successfully. In most European countries, the co-operative people's bank is an old established institution, and in almost every village or somewhat larger unit of area and population, the people's bank for savings and current loans is to be found doing its successful work and enabling the people to serve themselves with an efficiency as beautiful as it is astonishing, and productive of great economic, social and political benefits. Moreover, the principle is there adapted to rural needs quite as well as to the requirements of people in towns and cities. I echo Wolff's enthusiastic summary:

"Propagating themselves by their own merits, little people's co-operative banks have overspread Germany, Italy, Austria, Hungary, Switzerland, Belgium. Russia is following up those countries; France is striving strenuously for the possession of co-operative credit. Servia, Roumania, and Bulgaria have made such credit their own. Canada has scored its first success on the road to its acquisition. Cyprus, and even Jamaica, have

made their first start. Ireland has substantial first-fruits to show of her economic sowings.

"South Africa is groping its way to the same goal. Egypt has discovered the necessity of co-operative banks, even by the side of Lord Cromer's pet creation, the richly endowed 'agricultural bank.' India has made a record beginning, full of promise. And even in far Japan, and in China, people are trying to acclimatize the more perfected organizations of Schulze-Delitzsch and Raiffeisen. The entire world seems girdled with a ring of co-operative credit. Only the United States and Great Britain still lag lamentably behind."



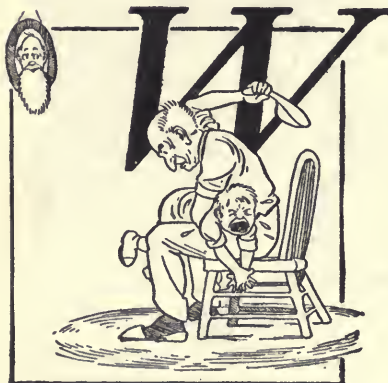
BEFORE TAKING

At present and heretofore, the farmers' money seemed to really take wings and fly away to the city. But under the extension of the national banking system to little co-operative people's banks, it will be possible for farmers, workers and the "common people" generally to help themselves.

AFTER TAKING

Credit unions under state law, or other forms of co-operative banking under state law, will promote thrift among the working masses in cities, but the system of national co-operative banks with the land banks it makes possible, is the prime need of villages and rural sections.



**Chapter XXIV****European People's Banks***Why they are successful**Remarkable results in Germany, both in town and country**Three different types in Europe**Raiffeisen system of little banks for savings and loans**Unlimited liability and close solidarity**How the Raiffeisen society is conducted**Plenty of capital from members' deposits**Loans at low rate for long periods on the security of personal character**The Schulze-Delitzsch bank quite different**Run for profit to the co-operating shareholders**Details of management**The Luzzatti system accommodates the humblest, and has well-deserved popularity***The Human Side**

HY has the number of co-operative banks in Germany increased ten-fold in twenty years, with corresponding growth in other forms of co-operation? Why is their growth greater from year to year? Because it pays the farmers and others who thus co-operate—pays in saving money and in making profits, pays by encouraging thrift, and pays yet more by bringing the people together and holding them together.

There is no exaggeration in the statement that the remarkable progress in European agriculture during the past twenty years, is due in large measure to the successful development of co-operative finance. It has fostered education in agriculture and in other sciences, promoted better farming, encouraged co-operation in buying farm supplies and to a less extent in market-

ing farm products, and is raising the whole standard of civilization among the farmers, with social, political and economic consequences of transcending importance. To this factor is largely due the almost entire cessation of the emigration that formerly threatened to depopulate rural Germany, which is now cultivated like a garden with hardly a foot of waste land nor a deserted farm!

Probably one-half of all the farmers in the Fatherland are now members of the co-operative savings and loan banks which supply them with money or credits, though many of such banks do the bulk of their business with townspeople.

This co-operative finance is so fruitful in benefit that these institutions have increased prodigiously in numbers, accompanied by large growth in other forms of associated effort. This is shown by the number of co-operative concerns reported as members of the German imperial union:

| Years,                   | 1890  | 1900   | 1905   | 1912   |
|--------------------------|-------|--------|--------|--------|
| Savings and loan banks,  | 1,730 | 9,800  | 13,200 | 16,800 |
| Co-operative stores,     | 540   | 1,100  | 1,870  | 2,400  |
| Co-operative creameries, | 600   | 1,900  | 2,800  | 3,500  |
| Other co-operations,     | 100   | 800    | 1,450  | 3,400  |
| Total,                   | 2,970 | 13,600 | 19,320 | 26,100 |
| Outside the Union,       | ----  | 4,000  | 4,400  | 7,000  |
| Aggregate for Germany,   |       | 17,600 | 23,720 | 33,100 |

Central banks act as feeders and equalizers for the local co-operative banks.

98 co-operative wholesale societies supply the stores.

Land mortgage banks have increased slightly in number and vastly in business.

The total liabilities of these co-operative banks in Germany for 1909 were about \$455,000,000, averaging a trifle under \$40,000 per bank, and \$400 per member; the average rural bank having about 100 members. Of the resources against these liabilities, 85 per cent consisted of the members' deposits upon savings or current accounts, about 4 per cent was members' share capital, leaving only 11 per cent of the total liability owed to outsiders. These locals are federated into central banks, in

which the surplus funds of some locals are deposited, to be loaned to other locals that may need them, and thus equalize supply to demand.

### ***The Three European Types***

Co-operative banks in Europe fall into what properly may be called three general classes: Raiffeisen, Schulze-Delitzsch, and Luzzatti, being named after their originators, and being pronounced respectively, Raf'-fi-sen, Schooltz-ze-Day'-litsch, Loot-zat'-tee.

Reports more or less fully descriptive of these institutions, and of similar efforts in other countries upon the same lines or modifications thereof, were collected in the summer of 1912 for the Department of State at Washington, D. C., through America's ambassadors, which may be referred to for specific details. David Lubin was the pioneer in such investigations, and later public documents add only details to the essential facts brought together at his suggestion by the International Institute of Agriculture at Rome and published in its official reports prior to 1912.

At the author's suggestion, the United States Senate passed in March, 1912, the Gronna resolution for a national commission on farm finance, and when it was delayed in the House, the work proposed was taken up by the State Department, primarily through the efforts of Myron T. Herrick, United States ambassador at Paris, and much of the official data published was collected by Robert Ingalls as a voluntary patriotic service.

Public documents, however, usually omit the "human" side of associated effort, though in this case they contain a wealth of technical information. One has to be familiar by personal contact with the differences between European and American institutions, their evolution and environment, in order to realize how much of this foreign experience may be wisely employed in the promoting of co-operative finance throughout the United States by adaptation to American conditions.

For one thing, let it be remembered that the people in the towns and rural villages of central Europe are more frugal than

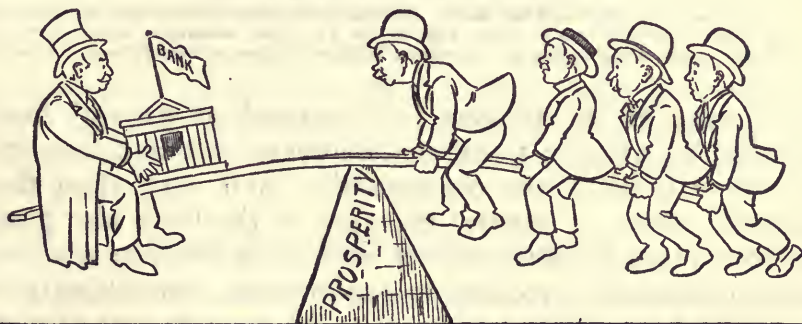


our people, they live more simply, they are more intimately acquainted with each other, and less independent in thought and action. The smaller farmers and peasantry mostly live in little dorps or villages, "all huddled together," as the American farmer would say, instead of each family occupying its own farmstead as is the case in the United States. The bulk of their business transactions is done with coin and with paper money, or by postal order. Only among the "upper classes" in Germany is the personal check used to the extent customary in the United States with every person who has a bank account.

With these preliminary generalizations, let us proceed to give a bird's-eye view of the three European systems most in vogue. This review will illustrate their principles and prove their remarkable success. For though established as early as 1849, their largest usefulness has been attained since 1890, and they continue to grow in number and resources, usefulness and power. On the other hand, this system as yet has hardly secured a foothold in England, despite its able advocates there, though the British people have outdistanced all others with their success in co-operative distribution of merchandise.

### **THE RAIFFEISEN SYSTEM**

The Raiffeisen bank originally consisted of members who are jointly and severally responsible for every obligation of the bank. It had no shares, no profits, no dividends, and almost no expenses. Upon the joint liability of its members, it borrows money with which to make loans to the members. It also

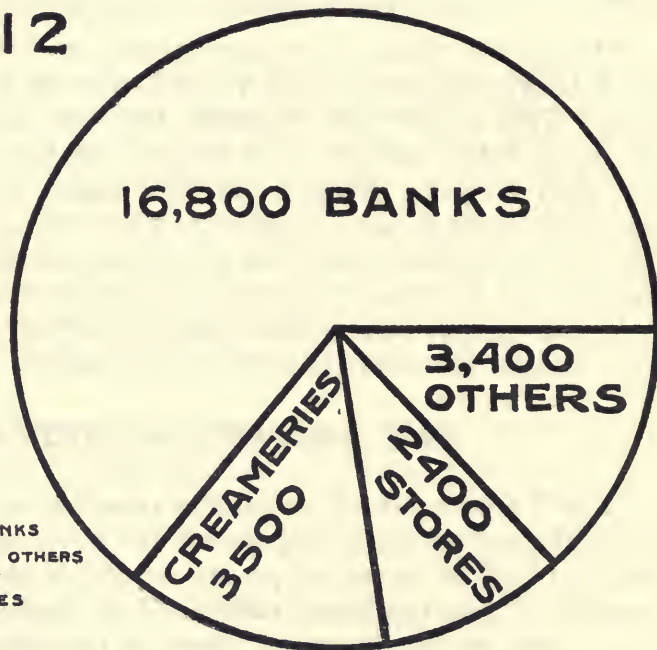


"JOINT AND SEVERAL UNLIMITED PERSONAL LIABILITY"

receives savings and other deposits, and in a small way transacts a general banking business. Only the lowest possible interest is paid upon money borrowed or deposited, so that the bank is able to make loans to its members at very reasonable rates—formerly 3 to 5 per cent when money generally was cheap, now 4 to 6 per cent.

Each member has one vote, and the bank being confined to a very limited locality—like our township, or even a school dis-

## IN 1912



## IN 1890



### GROWTH OF CO-OPERATION IN GERMANY

The charts show the number and relative importance of the various societies which are affiliated with the German Imperial co-operative union. There are also 7,000 other co-operatives outside of this union. The total number of co-operatives in 1912 exceeded 33,000, or ten times as many as twenty-two years ago.

trict—most of its business is transacted at general meetings attended by or open to all the members. Committees or trustees serve without any compensation, and very often the secretary-treasurer or general manager of the bank also gives his services; there being no salaries, no fees, and no commissions, the expense involved is reduced to a minimum. So willingly do the committees and officers serve, that the average cost of manage-

ment is only about \$150 a year for each of these little Raiffeisen societies, which have an average membership of about 90 people.

### ***Unlimited Liability***

Each member being unlimitedly liable for the bank's debts, every detail of its business is watched by the members, and it is this scrutiny, personal interest, vigilance, work and care that accounts for the fact that "never a dollar has been lost" by the thousands of these banks since Raiffeisen originated them in the Westerwald in 1849.

The unceasing and intelligent interest in the enterprise, created in part by the members' joint and several liability, results in binding together the membership into one common brotherhood for economic and social welfare.

The earlier plan of no membership fee has been supplanted by requiring each member to put in at least \$2.50, or from that up to \$125. The tendency of late years is not to fix the value of these shares too low; if so provided by the rules, the society may admit payments by annual installments. Such share capital constitutes only about 4 per cent of the total funds of these banks.

Also with increasing frequency do these societies now limit the member's liability to from two to five times the amount of his shares, since in the few cases of failure of a bank, or of a distributive society composed of several associations, great hardship has come to members who had property being held responsible for all the debts of the bank. Failures have never occurred among the little local banks, but disaster occasionally has resulted from bad management of a federated bank.

There is always a tendency in these later times toward limiting the member's liability to some fixed amount; also to accumulate a large reserve from year to year, so that the joint and several unlimited liability of members is no longer necessary to the bank's stability.

### ***How the Bank Is Conducted***

The Raiffeisen bank is incorporated under national law, but its operations are strictly confined to the district set forth in its



by-laws. It must have at least seven members, and can admit other inhabitants of the district, of full age and in enjoyment of all civil rights. The members elect a managing committee of four or five, which has a president and treasurer or accountant. Subject to members' approval, this committee transacts all the business—admission of members, granting of loans, acceptance of deposits. Also the making of purchases of agricultural or other supplies for the members; for in these little rural banks such purchases are made only when previously ordered in writing by members, who promise to pay and usually have cash enough on deposit to cover the order, so that the bank



ALL THE PEOPLE OWN, LOVE, PATRONIZE AND SUPPORT THEIR BANK

It is wonderful how these little co-operative banks in the various European countries enlist the spirit, interest, love and patriotism of the people. That the same will prove true in America is attested by the brilliant success of the various local building and loan associations in American cities and towns.

assumes no risk whatever on such purchases. Annually a balance sheet must be filed with the public officials, accompanied by certificate given by the auditor of the federation to which the society belongs.

The members also choose a council of supervision, consisting of at least nine members, chosen from the different communities or sections of the territory covered by the bank, whose business it is to supervise and control the acts of the managing committee, and see that the same are in obedience to the order of the general assembly. These supervisors require that the managers act only by virtue of decisions in the meetings of their committee and duly recorded in its minutes; at least quarterly the council of supervisors, without previous warning, inspects the cash and records of the treasurer.

The supreme authority, is the general assembly of members. It meets once a year, hears the reports of the managing and supervising committees, approves the accounts and balance sheet as audited and approved by the supervisors, and decides as to the division of the net profits. Usually 3 to 4 per cent interest is allowed on the members' shares and deposits, a certain amount is placed in the reserve fund, and the remainder, by decision of the general assembly, is generally assigned to some work of common utility for the benefit of all the members and of the community.

### ***Plenty of Capital***

The Raiffeisen banks are confined mainly to the rural regions, and mostly accommodate farmers and the peasantry who require money on long time—one to ten years—but do not generally loan on real estate mortgages. They obtain deposits, or hire money from other individuals, banks and corporations, and their credit is so good that they do not have to pay a high rate of interest to secure such funds, but nearly 90 per cent of their deposits come from the savings of their own members.

The working capital, however, now consists mainly of the savings-bank deposits, which the society accepts from anyone. The amount of these deposits is surprisingly large, they flow in from the most unexpected sources, everyone in the community seems to be able to make deposits, very little cash is kept at home, but it all flows into the bank, and the members borrow it and use it for productive purposes.

### ***Loans at Low Rates***

Loans are made for any length of time; for a few days, a few weeks or a few months, up to five or ten years, and usually upon only the personal note of the borrower, indorsed or vouched for by some of his neighbors. Current loans, for one year or less, constitute about one-third, and longer time loans two-thirds of the business.

The loan is made only for the purpose which, in the judgment of the committee on loans, is likely to be profitable, such

as buying fertilizers, the purchase of improved live stock or seeds, or any other sensible investment likely to produce a profit. The principal of the loan is usually reduced by annual payments or oftener, and the interest is insisted upon promptly.

With very few exceptions, most of the agricultural co-operative credit societies among the farmers in Germany are organized in this simple way, which has permitted of their becoming a continually increasing source of prosperity to the farming population. The exhaustive report by the International Institute of Agriculture at Rome concludes:

“With cautious, intelligent and active men at the head of their committees and councils of supervision, they reap truly a golden harvest in the form of a constantly increasing reserve fund, besides performing their banking functions, but the chief merit consists in their being true nuclei of that spirit of solidarity which stimulates healthy support of whatever is most nobly philanthropic.”

### ***THE SCHULZE-DELITZSCH BANK***

While it does more or less agricultural business, the Schulze-Delitzsch bank is usually found in towns of some size, and transacts the bulk of its business with townspeople. Each shareholder has one vote, but the amount of the share is usually much larger than in the little Raiffeisen banks. The tendency of late years is to limit the members' liability to the amount of the shares. Where the share is large, the member may pay on the installment plan, and this encourages him to save, something after the principle of the American building and loan association.

The average paid-up share capital is about \$200 per member, and members can withdraw after due notice, but sacrifice their interest in the reserve, and sometimes lose part of the income, upon withdrawal.

### ***A Profit-Making Proposition***

Every effort is made to earn money for the bank, by getting as large an income as possible from the loans it makes, and after



paying 3 or 4 per cent on savings deposits and 5 or 6 per cent on members' shares, the remaining profits are usually added to reserves till they reach fifty per cent of the members' capital. Then the earnings go to the shareholders in dividends, which may reach as high as 7 to 10 per cent, though the average is hardly 6 per cent.

Instead of striving to help the very poor by loans at the lowest possible rate, and raising money for this purpose upon the joint and several liability of the members but without share capital, the Schulze-Delitzsch bank does a straight-out banking business, and makes as much money as possible from its share capital and the savings of its members; it also seeks deposits from the public.

The members' capital is increased from time to time, so as to equal about one-fourth of the amount of deposits. Preference is given to savings deposits, which are comparatively permanent and not frequently withdrawn, but these banks also do a regular commercial banking and check deposit business. The bank's share capital is not limited, but increases from year to year with the increasing membership, which includes people of all vocations. The more members, the more rapidly its assets grow and the less is the unit cost of maintenance.

Loans are made usually only on good security, such as indorsed notes, acceptances, bills of exchange, or other forms of available collateral. The loans are mostly made to small artisans, small merchants, to farmers for current purposes, and to others who can use money advantageously for from three to six months or longer. Comparatively little money is loaned on mortgage. The bank is run as a commercial proposition, and its assets are kept as "live" as possible.

### ***Details of Management***

Members elect a committee on management, also on supervision, but the members do not have any such intimate knowledge of and interest in the bank as is the case in the Raiffeisen societies. The latter are rural district trusts where everybody knows everybody else and everybody's business; the former is a

more citified institution, and operates as both a savings bank and as a loan bank for current accommodation.

The supervising committee employs expert auditors to go over the books and cash at frequent intervals. Everybody who works for the bank is paid for their services, and the whole enterprise is run for profit to capital rather than as a co-operative affair for mutual benefit. Any respectable person may join the bank by signing its rules and paying the first installment upon his share, and membership has to be approved by court certificate. The business is under rigid governmental supervision in every respect.

Each bank has a special committee to estimate the amount of credit which the management may safely permit to each member; beyond the limit shown on this credit register, loans may not be made. Loans are usually made for a short time, for six months or a year, but not infrequently are renewed from period to period over a series of years, provided the security is perfectly good or improving in value. With increasing wealth in the rural districts, these banks do an increasing agricultural business. All payments have to be promptly met, and as we say in America, "It is run just like a bank." The thousands of these Schulze-Delitzsch banks have hundreds of thousands of members, with millions of assets, and their business reaches hundreds of millions of dollars yearly. Failures are practically unknown.

### **THE LUZZATTI SYSTEM**

Luigi Luzzatti, who for years has been one of Italy's foremost statesmen, began in 1863 to establish co-operative people's banks in that country. Instead of copying the German system, he produced a new type adapted to Italian conditions and character, much as we must do here in America.

Hence, these banks have no joint and several liability, but each member is liable only to the amount of his shares. The shares are not large, nor do the installment payments thereon run for a long period: the share is usually \$5, sometimes \$10, and must be paid up within ten months. One member may not hold in excess of \$1,000 in shares in any one bank. Each mem-

ber has one vote irrespective of the number of his shares. A relatively large area may be covered by one bank, sometimes the equivalent of several townships, or even a county.

The members elect a large board of management, representative of all the interests and localities among the members, which is unpaid, and is selected with the greatest care. This board elects an executive committee of three or five members, at least one of whom must always be on duty during banking hours as representing the members' supreme authority, without whose signature no transaction is valid. Subject to such committee, the usual officers are employed to conduct the institution.

Every inducement is offered to members and to the public to deposit in the people's bank, either on current account or preferably in savings deposit; and so successfully is this done that the volume of deposits rises in volume from year to year, even in that comparatively poor country.

### ***Accommodating the Humblest***

Loans are made almost exclusively on personal security, such as indorsed notes, acceptances or similar paper, and less frequently upon public bonds and corporate stocks. The granting of loans is in charge of a separate and distinct committee, which is instructed as follows:

"Be careful to avoid risk. Never lose sight of this one maxim: there must not be risk. You are dealing with other people's money. This bank is here not to earn a profit but to provide cheap credit and to keep money safe. Therefore above all things it is your duty to avoid risk."

Yet many loans are freely made on the character of members rather than upon their visible assets. Thus honesty is capitalized. While mortgages are not taken, great numbers of small loans are made to small people, for such purposes as the purchase of a cow, or sewing machine, or to cash a bill not yet due, or other forms of conveniently popularized lending.



This enables even people in the most humble circumstances to borrow cash at reasonable rates, so that they can pay spot cash for their purchases. This has made cash payments in trade the present rule instead of on long credit as in former years; it has quite done away with the curse of buying on the installment plan.

The people's banks of Italy make hundreds of thousands of loans in sums from \$1 to \$50, including many advances to farmers for agricultural purposes. Farmers borrow for six or twelve months with the privilege of renewing, and give as security personal endorsement, acceptances, or some other form of collateral; the rate of interest on these longer-term loans to farmers usually is about one point higher than upon ordinary short time commercial loans. Landlords frequently indorse for their tenants.

### ***Well-Deserved Popularity***

These Italian people's banks have become the most popular of savings banks. They encourage thrift. They train the people systematically to deposit their savings, and then employ the money within the district "to fructify there and benefit the section of the population from which it has been gathered." Thus money and credit is localized and decentralized, and the interests of the rural communities and of the smaller farms and villages are preserved.

*The people feel that the bank is their very own, they have confidence in it and patronize it accordingly, so that it is vastly more popular and better patronized than the postal savings bank.*

During periods of depression and panic these people's banks have proven to be steadier and more stable than the big commercial banks. Why? Because the co-operative people's bank is backed up by the good-will, the spirit, the interest, the patriotism, and the love of the people.

The little rural bank of Italy is a still simpler form of the people's bank. It is constituted practically upon the Raiffeisen system, and confines its operations to the smallest village areas.

The poor people feel that it is their own, they administer it themselves, it keeps their money in their own district, and they take pride in its success. There is no other place where these people can get accommodation, unless of some Shylock at usurious rates, so they all appreciate its value. The educational benefits are naturally great.

An interesting phase of co-operative banking in Europe, is that the members prefer to put their money into their own co-operative bank than into the government bank conducted by the postoffice. And this among populations brought up to have the government run everything! But it is human nature to prefer to own and operate one's own business. Co-operation successfully cultivates individuality, while tending to prevent the abuses of capitalistic combination upon the one hand, or of dominating individualism on the other.

**AS IT WAS**

Old Way: Farmer humbly begging a local Shylock for a loan at 20 per cent. No one can measure the distress and uneconomic results of farmers being obliged to deal with the "gombeen" man. The evil has existed in all countries.

**AS IT WILL BE**

New Way: Farmer who wants accommodation is gladly welcomed by the banker, whether he is at the head of a capitalistic bank or one of the people's co-operative banks, under national or state charter. The farmer's credit is now in an available form.

## Chapter XXV

# Essentials in Co-operative Banking

***Instead of a new system, bring existing methods within reach of the common people***

***Purposes of co-operative banking***

***Why the title "co-operative bank"***

***What the people insist upon***

***National co-operative banks will supplement, not compete with, existing institutions***

***They will revolutionize retail trade, by substituting cash payments for buying on trust***

***Momentous educative value***

***Institutions may also incorporate under state law***

***Social service and patriotism***



An American System Adapted to the American People.

**T** NOW remains for me to outline and suggest a method whereby co-operative banks for saving, loans and commercial purposes among the common people in the United States may be made successful, beneficial and permanent. We are to recognize that conditions here are much different from those abroad, and that our methods will have to be perfectly adapted to the history, customs, laws and conditions with which our people are familiar. We require an American system adapted to the American people!

We need more little banks and societies, mutual and co-operative, to foster thrift and better business methods among the co-owning and co-sharing members, to furnish them credit for productive purposes, and to enable their members to apply to their own needs the funds which thus are made available.

In America, it appears that there is now even greater need for such co-operative banks to meet the situation in the country than in the town. Banking facilities simply do not exist at all



in thousands of rural communities. But the "little" people in cities and towns also need such an agency, quite as much as do the farmers and rural dwellers.

Therefore, the American method should be broad enough to cover both needs, yet sufficiently flexible so that it may be easily adapted to any and all wants.

### ***Bring Existing Methods Down to the Common People***

It must be simple, effective and within reach of all. It must be something that the American people are familiar with, an evolution from a system that has proven its worth and that rightly commands the confidence of the people. That is why organization under the national banking act is recommended.

Right here is one beauty of my method. It does not set up a new type of institution, unfamiliar to our people and apart from the banks and banking methods with which they are acquainted. It simply brings these methods down close to the common people, by enabling the people of smaller means and smaller needs to organize and operate smaller banks for their smaller purposes and smaller accommodation.

### ***Purposes of Co-operative Banking***

Whatever the nomenclature applied, or whatever the precise form of organization adopted, the purposes of the people's co-operative bank are the same:

- To induce the people to join it as members and shareholders, if only in a small way—*labor or effort*.
- To encourage them to save money and deposit their savings in their own bank—*capital* accumulated.
- To safely loan these savings and the bank's credit to the bank's members or customers within the local territory of the bank, for wisely productive purposes—*wise use*.
- To enable the people themselves to create efficient *management* of their bank.

By these means, the people co-operate to pool their cash and credits, so that both these resources may be employed in upbuilding the agriculture and other industries among the people whose savings and efforts create the bank. It is purely a banking function, a banking proposition, but animated by the co-operative spirit and conducted for the common welfare, rather than for the purpose of paying big dividends to capital irrespective of the people whose deposits and borrowing constitute the principal business of the bank.

An institution of this type is worthy of the most intelligent solicitude and wise encouragement by a republican form of government. These "little" people are entitled to just as fair an opportunity in banking as the "big" people who relatively have monopolized the banking business. These people do not wish to be allowed condescendingly to form what an unthinking public may consider societies for pauper credit, or unions of paupers for securing petty loans. On the contrary, the pride, patriotism and interest of the common people will rally to the support of their people's banks when these institutions are not only named but are recognized as real banks.



WRONG

Citizen A: "What sort of a thing is this newfangled credit society they are talking about?"

Mr. B: "Why, it is one of these outfits to help poor people who can't get credit elsewhere. At least that's the idea I have formed."

Citizen A: "That isn't right. Our people don't want any charity organization."

RIGHT

Citizen C, holding up Mr. D, who has just come out of the building: "Why, what's this institution over there that everybody seems to be patronizing?"

Mr. D: "Why, it is the bank owned by the people, comprised of the people, and run for the people."

Citizen C: "I will put my account in there today."

### ***Why the Title, "Co-operative Bank"?***

"The rose by any other name would smell as sweet, but it would not be the rose." Our people know the rose, they are educated to appreciate it, they would not stand to have it known by any other name. Likewise our people understand what a bank is, and especially what a national bank is; because the common people wish to associate themselves in such banks, but on the smaller scale adapted to their smaller needs, is no excuse for calling these institutions "credit societies," or "credit unions," or by any other strange name, suggestive of the new, the foreign, or the unknown. Massachusetts has tried that with poor results; under her most excellent law, few "credit unions" have been formed, whereas if the law had used the term "people's bank" the number would doubtless have been greater.

The service our common people require of their co-operative financial institutions is distinctly a banking service; and they justly demand that these institutions be known as co-operative banks. Simply because their capital stock is smaller, is no reason why these people's co-operative banks should be stigmatized as "credit societies," or "credit unions," unless the purpose be to thus distinguish them from real banks. But since the people insist upon making these institutions nothing more nor less than "real banks," they rightly insist that these popular institutions shall be known as co-operative banks, operated as banks, supervised as banks, and made an integral part of the American banking system!

This argument is irrefutable. It must be recognized by national and state legislatures, as it will be by the public and by banks.

### ***Supplement, Not Compete***

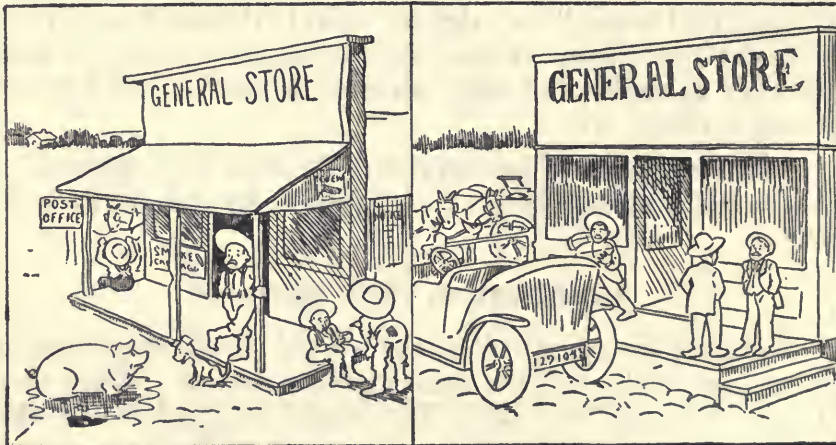
National co-operative banks would supplement national commercial banks and the state banking system. They would not interfere with the same, but would be feeders for them. These little local co-operative savings and loan banks, each under the national law and subject to national supervision, would at once possess the implicit confidence, not only of members, but of the public generally.



The savings of the people would flow into them automatically, and these funds and the credit of the banks would be invested and thrive in the vicinity where the deposits originate, or be loaned to farmers, artisans, country dealers, local merchants and others who would use the same for productive purposes. The world will soon be amazed at the growth in number and success, resources and usefulness of these popular institutions.

### ***Will Substitute Cash for Credit Purchases***

As rural co-operative banks increase and multiply they will effect a gradual revolution in country trade. At present, much of this trade is done on a long-time basis. In many sections, the country merchant still "carries" the farmer for from four to eight months each year, furnishing the farmer with the necessary food, family and farm supplies on credit, and being paid for the same when the crop is made and sold. Even in quite thrifty sections, it is customary for the country merchant to give long credit. Much of the agricultural machinery, fertilizer and other staples bought by farmers, are sold on long time, either on open account or by note.



**AS IT IS, SOMETIMES**

**AS IT WILL BE**

What a revolution in rural trade will be accomplished when farmers have the actual money in pocket or in bank so that they can pay cash to the storekeeper and to their dealer for all their purchases! Instead of tumbledown stores, ornamented by bums and loafers, the country storekeeper will now become a center of up-to-date cash business. The people's national co-operative bank will supply the people's need for credit, so that consumers can pay cash to the merchant and dealer.

Such credits are almost invariably good, though slow. They involve extra expense all along the line, and the farmer has to pay the bills. It is conservative to say that for accommodation in this form the average American farmer pays what is equivalent to from 12 to 20 per cent interest per annum on the amount involved.

Now, if the farmer can get current accommodation for say 6 per cent, so that he can pay cash for his purchases, what a saving there will be to him! Moreover, the local dealer and country merchant will make more money by doing business on a cash basis; the jobber, the wholesaler and the manufacturer will likewise be benefited.

Equally imperative is it to provide relatively cheap credit to the masses in cities and towns, so that they may get out of the clutches of the installment system, or those leeches known as "private money lenders." The only person who will be hurt by this reform, is the local Shylock whose business is to grind the poor and exact usurious rates of interest from the loans he makes to the needy.

Quick sales at small profits, mean many sales at an aggregate large profit. No one really benefits by the present custom of compelling merchants and manufacturers to grant the "accommodation" which people should get at the bank. Right here the great need, economy, and efficiency are emphasized of having more and better banks whereby the common people may do their own banking business for themselves. The banking business should be conducted by the bank, instead of being thrown on to the merchant and manufacturer.

### ***Momentous Educative Value***

The educational value of this co-operative institution, among people who do not now enjoy such advantages, would be incalculable. The bank would start in a comparatively small way, and would be supported by the volunteer and unpaid services of its directors and officers, with the possible exception of its president or cashier, who may be paid for giving it the necessary time and attention. It could even begin with no ex-

pense for office rent, having its headquarters in the house or office of the manager until its business required an establishment of its own.

The members would work like beavers to develop the institution to a point where it could afford to rent or build its own offices. The bank quickly could become the common people's center for financial thrift, advice and progress.

### ***Co-operative Banks Under State Law***

While I strongly advise one comprehensive act of Congress embodying all reforms needed in the American fiscal system, including provision for little co-operative banks and for a land bank in each state under the national banking act, there is also room in many states for these types of institutions incorporated under state law.

The best statute now in effect is the Massachusetts act of 1909. One of the first to be established under that law was the Myrick Credit Union, formed upon their own initiative by the author's co-workers in our eastern establishment at Springfield. It has made a good beginning and a number of similar unions have been formed.

This experience has taught lessons that will be of value in drafting a co-operative banking law for other states. Thus far the Massachusetts plan has been applied only in cities, and requires a number of modifications to adapt it to rural needs. As elsewhere stated, the name "people's co-operative bank" is superior in every way to "credit union" or "credit society."

### ***Social Service and Patriotism***

Aside from the executive head and actual employees in our people's co-operative bank, all of the other positions of honor, trust and responsibility—directors, committees, members—are such that the holders would gladly serve their country in this way, without money and without price.

Precisely such service is being freely given by the managing boards of thousands of co-operative building and loan associa-



tions. The marvelous efficiency of mutual savings banks in the New England and Middle states is due partly to the unselfish devotion with which the most upright citizens, men of experience and sound judgment, serve as trustees with no thought of pay.

Such service is patriotism made practical—it is the spirit of co-operation, which elevates the tone of the whole community.

Patriotic volunteer service is the keynote to successful co-operation when supplemented by the most expert executive direction and practical management of business operations.

It must ever be kept in mind that this undertaking is not a scheme for commercial profit upon capital; but that it is purely a co-operative undertaking between borrowers and lenders for their mutual benefit, and to eliminate the expenses and profits of middlemen. This ideal of service is vital to the largest success. Such spirituality is the real thing in life.

The spiritual is superior to the material in any form of co-operation, provided the spiritual ideal is wisely directed and applied in a thoroughly practical and businesslike manner.

### ***Social Patriotism***

Serve well thy native land!  
Let daily task  
Be but the mask  
Of duty done.

Guard well thy suff'ring land—  
Against her foes, who band  
Themselves to wrong demand  
With their whole might.

Serve well thy loved land!  
Each day's good work,  
Without a shirk,  
Is service shown

Guard well thy noble land!  
Uphold her honest hand  
By thine own fearless stand  
For truth and right.

H. M.

## Chapter XXVI

# Plan for American Co-operative Banks

*To be formed by the people in any locality*  
*Amend national banking law to permit co-operative banks to*  
*be incorporated and conducted thereunder*  
*Each state is left free to authorize people's banks under*  
*state law*  
*Name and capital*  
*Shares, par value five dollars—double liability like other na-*  
*tional banks*  
*Powers, duties and privileges of the co-operative bank*  
*Supervision and management*  
*Detailed reasons for each suggestion advanced*  
*May take over existing small state banks*



SUGGEST the following as an outline for a feasible method of enabling the "common people" to help themselves and their country, through a system of co-operative banks which is designed to accomplish the purposes set forth in the previous chapters.

These popular institutions are for savings and loans, deposits and discounts, also for storage of valuables and other financial purposes. Their business is therefore *personal credit* on the strength of character or personal security, but these co-operative banks are also sections of the foundation of the land mortgage banking method I propose in the next part of this work. It will be seen that the two forms of credit—(a) personal and character, for current accommodation, and (b) mortgage or permanent, for long time on real estate security—are kept separate and distinct. But the co-operative bank is the local representative, co-owning local supervisor, and the local representative of the land bank for its state.

### ***A Plan for People's Co-operative Banks***

1. Seven or more citizens, resident in any place, may incorporate a national co-operative bank under the national banking law, which law is to be suitably amended by Congress for the purpose.

2. The words "National Co-operative Bank" must appear in its name. If located in a rural community, the word "rural" shall be used in, or immediately after, or under the name of the bank; if in city or town of 3,000 or more population, use the word "urban."

3. Such bank shall receive its charter from the United States, through the Treasury Department, when—

4. The bank has received not less than \$1,000 in cash for its initial capital stock. Additional capital may be added at will, by the sale for cash only of more shares to present shareholders, or to new members.

5. No one individual may hold more than 100 shares, nor shall any corporation, society or association other than a natural person, be admitted to membership.

6. Each share shall have a par value of five dollars (\$5), which must be paid in full before the certificate therefor is issued.

7. Each share of stock shall carry with it double liability: that is to say, in case of liquidation, an assessment up to \$5 may be levied upon the owner of each share outstanding, if so much is required to pay all debts owing by the bank. (Double liability is provided by existing law for national banks for commercial purposes.)

### ***Powers of the Bank***

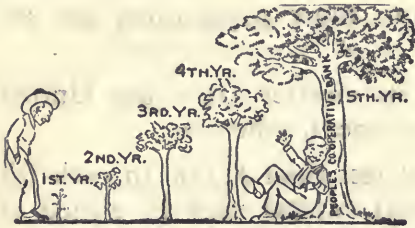
8. Each national co-operative bank transacts a regular banking business, with its shareholders or the general public. It may receive and pay out money on current account, may grant loans of its cash and credit, may buy and sell notes, acceptances, commercial paper and other credit instruments. It may con-



duct a savings department, but the deposits and investments therein shall be kept separate from current commercial business.

9. It may loan on mortgage upon real estate—preferably farms owned and cultivated by their owners, or homes occupied by their owners—at not to exceed 67 per cent the value thereof, to a total not exceeding two-thirds of its savings deposits.

10. It shall not have the right to issue credit currency nor to conduct a trust department until its capital reaches at least \$25,000 if in a place having 3,000 inhabitants or less; \$50,000 for 6,000, \$100,000 for over 6,000 to not exceeding 50,000, and \$200,000 for a city with over 50,000 inhabitants.



SOLID AS THE OAK, BUT GROWS MORE RAPIDLY

This picture is no exaggeration of the rate of growth that will be enjoyed by many of the little local co-operative people's banks which should be authorized by the amended national banking law. The largest success will follow the best management and most earnest support of the members. Substantial growth and financial strength are better than mushroom development.

11. It shall deposit one-fourth of its capital stock, as fast as paid up, in the reserve fund of the national land bank for its state.

12. Each national co-operative bank shall not pay any dividend upon its shares until its surplus equals at least 25 per cent of its capital. Thereafter half the earnings available for distribution shall be applied to surplus until the surplus equals capital, and the balance may be apportioned between capital stock or patronage, or otherwise employed as the by-laws set forth or the members vote; provided, that the maximum dividend upon shares shall not exceed 1 per centum over and above the average rate of interest charged borrowers.

### *Supervision and Management*

13. Otherwise, its organization and operations shall be subject to the same regulations, supervision and control as is applied to regular national banks, with which it may be affiliated (if it has less than \$25,000 capital) by "clearing" through a regular national bank that is a member of the local clearing

house; but if it has \$25,000 capital or more it shall be itself a member of the clearing house.

14. The shareholders of each national co-operative bank shall elect a board of directors consisting of not less than five nor more than fifteen directors, who shall fairly represent the various areas and interests included in its membership. The shareholders elect an executive committee of not less than three shareholders, none of whom shall be an officer in the bank, who shall represent the shareholders when the directors are not in session, and who shall act as a committee of inspection and audit, with power to employ expert auditors and investigators. The directors shall elect a president, vice-president, a cashier, and such other officers or committees as may be required. The directors and officers shall conduct the bank in accordance with the federal act and the by-laws adopted by the shareholders, so as to best meet the conditions incident to its locality, and shall report fully to the annual or special meetings of shareholders.

### ***Why "National" Co-operative Banks?***

1. National banks heretofore established under the federal act were planned to do exclusively what is known as commercial business, though many of them now have a savings department. The amount of their capital stock is governed in part by their location and the number of people in the vicinity in which they may do business. Until the year 1900, national banks could not be started with less than \$50,000 capital stock, in any place having 6,000 inhabitants or less. Then the limit was reduced to \$25,000 in any place having 3,000 inhabitants or less.

Within a short time thereafter, the number of national banks doubled, thus showing the great need that existed for more banking facilities. The increase has been almost entirely in the rural districts. The number of national banks reported in September, 1912, as doing business was 7,397, of which 2,000 have a capital stock of \$25,000 each, and the average capitalization of the remainder is \$230,000. Of the total capital stock, amounting to 1,025 millions of dollars, about fifty millions were in the smaller banks.



The national banking system has thus proved its efficacy. In spite of its defects, it has served the public well, has held its own against the competition of banks under state law, and justly possesses the confidence of the American people. During its nearly 50 years' experience, the system has developed into a widely ramifying organization which severally and collectively possesses a vast fund of experience.

An institution which has thus proven its worth and won its way into the public's appreciation, is the thoroughly established foundation upon which to build people's banks smaller in size and co-operative in character. And with unanswerable logic, Americans now say:

"If the national banking act is such a good thing for people of means, why not the same principle in a modified form to meet the needs of the common people for co-operative banks?"

Another advantage of chartering co-operative banks under the national law, is that their organization can be encouraged so simply, quickly, effectively and uniformly. It only will be necessary for the Secretary of the Treasury to appoint a committee in each state, from among those interested, who are recommended by the people themselves, equip such committee with uniform instructions for organization, forms of by-laws, etc., and these little co-operative people's banks will be established as rapidly as the people feel need of them. The movement will be championed by all existing agricultural organizations and by farmers individually, also by labor unions, and associations of other citizens.

The experience in actual practice of these institutions will pave the way for each state legislature to pass such laws as may be wise for authorizing people's co-operative banks within the limit of their respective states and under the laws thereof. Each state is left free to create and govern any form of co-operative banking under state law which may be best adapted to its conditions, but my method begins the work forthwith upon a uniform national system under federal law.

### *Why the Name?*

2. The words "National Co-operative Bank" must appear



in the name, so as to distinguish each institution of this class from the regular national banks now existing or hereafter organized for commercial purposes upon the usual capitalistic basis. In these regular banks each share of stock has one vote, instead of each shareholder having one vote as in the co-operative system.

The regular bank is a strictly capitalistic affair, operated to make as large profits as possible upon the capital invested, more or less irrespective of its customers' welfare, whereas the co-operative bank, as we have seen, has quite different motives and objects; it limits return upon capital to a comparatively small or reasonable amount, and then divides additional earnings among those whose patronage produces the earnings.

It is important also to distinguish between co-operative banks in country and town, as their field of operations is quite different and their methods necessarily will not be alike. For economic and statistical purposes, it is expedient to differentiate them. Moreover, the public and all banks will often wish to know at a glance whether the institution is rural or urban.



THE GOVERNMENT'S CHARTER

The confidence felt by the people in national banks is partly due to the fact that they receive their charter direct from the federal government and are under its control and supervision. If the "common people" are now to feel that they may enjoy this priceless privilege which heretofore has been accorded only to banks having \$25,000 capital or more, it will be a great inspiration to the people to take hold and help themselves.

### *Why a National Charter?*

3. Receiving its charter direct from the United States, just as does a regular or commercial bank under the national banking law, each national co-operative bank will at once command the confidence of its shareholders and the people in its vicinity, for the reasons previously set forth.

### *Why Permit Small Beginnings?*

4. It should be permitted to begin business with as little

as \$1,000 of cash capital. This may be as much as can be raised conveniently, at least at the start, by the limited number of people of small means who may at first undertake to organize the institution. If they can raise more funds and need more capital, well and good; but the law should make it possible for even the humblest community to institute its own co-operative bank.

Let us not despise the day of small things! The co-operative bank starting with only \$1,000, within a few years may have a capital and reserve of anywhere from \$10,000 to \$50,000 and with deposits of from \$25,000 to ten times that sum. All the arguments that may be advanced against small beginnings were made by some of the big banks against capitalizing national banks as low as \$25,000 in small towns; but experience has shown that those smaller institutions were greatly needed; about 2,000 of them have been formed within the past ten years, and they are doing a splendid work, to the great service of a public which previously did not have adequate banking facilities.

It is only within very recent years that commercial bankers in America have begun to appreciate the power of small accounts. The recognition of this fact has led to the widespread introduction of the little home savings banks, and other means for inducing people in even the most moderate circumstances to make savings deposits, not only in savings banks but in commercial banks. In this marvelous country of ours, the small depositor today may be the big depositor tomorrow; the little co-operative bank at the start, may grow with amazing rapidity into a great popular institution of large resources and still larger usefulness!

Also is it of fundamental importance that the capital of a co-operative bank be allowed to grow, automatically and steadily, without let or hindrance. So long as the amount of capital stock outstanding at any time may not be depleted or reduced, except in the formal manner already prescribed in the national banking act; so long as no demand is made for a large "authorized" capital stock, nor for any "water," nor for the right to indicate that the bank has a larger capital or capital stock than the cash it has actually received and invested in its shares, no valid objection can be raised.

### ***Why Limit Share Holdings?***

5. It is important to strictly limit the maximum number of shares which any one individual may own in a people's bank, so as to preserve its purely co-operative features. This is in direct contrast to a capitalistic bank, where a few individuals may own all or most of the stock.

By having membership confined to natural persons only, we at once "nip in the bud" any tendency toward consolidation, monopoly or manipulation by outside selfish interests.

### ***Why \$5 Shares?***

6. Five dollars has come to be the accepted size of shares in co-operative enterprises. It is the general rule in the United States, which received this unit from the co-operative stores of England, and this size is also characteristic of the Italian people's banks. It is within reach of the humblest, and thus makes it easy for the co-operative bank to obtain the largest number of members possible among its constituency.

Because the par value of each share is only \$5, by no means limits each shareholder to the investment of but \$5, for any one member may acquire as many as 100 shares, or make a total investment up to \$500 in the capital stock of the co-operative bank.

A little share is also within reach of children and young people. In hundreds of these little banks, every member of every family will be a shareholder, to the advantage of the family, the bank and the community. It is true that in capitalistic banks, both national and state, the par value of the share is \$100, but that is no excuse for debarring the people from the great advantage of shares of a par value of \$5 each.

### ***Why Double Liability?***

7. For fifty years, stockholders in national banks have been subject to double liability, although state banks do not usually impose the double liability upon their shareholders. The added

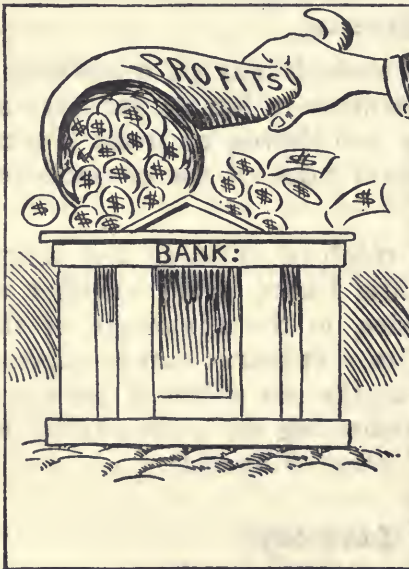


stability imparted to the national bank by reason of this requirement is not the least of its advantages over state banks, at least in some commonwealths.

The American people do not object to this double liability. It is a cardinal feature of the national banking system, and should be made use of in these co-operative banks, so that they may be established on the same basis as other nationals. Americans are unalterably opposed to the joint and several unlimited liability so common among the co-operative banks in Europe.

### *Why Not Restrict Powers?*

8. The little bank being organized with broad powers, will proceed to transact its business and work out for itself its own salvation along the lines which will best serve its constituents. Not to be tied down by unnecessary redtape or bureaucratism on the one hand, yet on the other to be supervised most rigidly and given the benefit of affiliation with and education by existing banks!



**FEED WITH EARNINGS**

The bank should be fed with earnings, not bled for dividends. Its earnings and profits should roll up into a surplus against a rainy day, and to insure against the shareholders ever being liable for its debts.

(See page 242)



**NOT BLEED FOR DIVIDENDS**

Don't let its lifeblood ooze away. Many a bank, as well as many a business, has gone to pieces by not accumulating a reserve. On the other hand, the reserves should be wisely but freely used when the rainy day comes.

With such flexibility, the bank at the South, in the cotton region, can adapt its methods to the peculiar conditions of its environment; in the eastern states, among the little rural communities with their varied industries, co-operative banks will operate in quite a different way; the interests of the people of small means among city working men who have little banks, will require still different treatment; and so it will be all over the country.

Let the law confine itself to fundamental principles, and leave each bank free in working out the details of its business, whether in country or town. But when the co-operative reaches \$25,000 in capital, or more, it must be subject to all the rules that apply to such larger banks, and may then issue credit currency (national bank notes). No favoritism is asked for the co-operatives—simply a fair chance.

### ***Why Permit Mortgages?***

9. There is no better security for a considerable proportion of the savings deposits of any bank, small or large, than well-secured first mortgages upon farms and homes. For while these little banks are local agencies for the national land bank in their state, they should be free themselves to invest in mortgages; because ere long their savings deposits and surplus will be so large as to seek this outlet. Avoid restricting the bank's activities; make it as easy as possible for people to borrow money on their farms and homes, so that even the humblest person may acquire an establishment of his own.

10. When the co-operative bank reaches a size, as measured by its capitalization, equal to that prescribed by the national law for a capitalistic bank, it should possess the same privileges, rights, and duties. Let there be equality between the regular nationals and co-operative nationals, under equal conditions.

### ***Why 25 Per Cent of Capital in Land Reserve?***

11. While the national co-operative bank in each locality is mainly a bank for personal credit and for current accommo-



dation, for saving and for loans, and although it is authorized to loan some of its savings deposits upon real estate mortgages, the bulk of the land mortgage business in its vicinity will probably be absorbed by the land bank incorporated under national law for its state. The local co-operative bank is to be the local agent, local representative and in a sense the local manager for the land bank.

Therefore the local bank should deposit one-fourth of its capital in the land reserve for the reason described in the part of this work devoted to land mortgage banking. This will also disassociate all the other business of the bank from the land reserve. Do not mix together current personal credit and permanent mortgage credit.

### ***Why Limit Dividend?***

12. The provision that no dividend shall be paid until the surplus equals 25 per cent of the capital, insures that the bank will begin forthwith to accumulate a surplus. Once this habit is formed, the surplus will continue to grow, and ere long will equal the capital. Many banks will start in by having their 25 per cent surplus paid up before beginning business. Such surplus will take the place of the 25 per cent of the capital stock which is deposited in the land reserve.

The proviso that dividends upon shares may never exceed by more than one point the rate of interest charged borrowers, will have several good results. It will remove all temptations of the management to charge high rates for the purpose of earning big dividends; this insures a more conservative and safer administration, as well as protecting borrowers from extortion. The proviso means that if the average rate charged borrowers for a given year was 6 per cent, then the total dividend that might be paid shareholders for that year could not exceed 7 per cent.

The whole object of recommendation 12 is to make each bank a financial Gibraltar—feed it with earnings, don't bleed it for dividends. Make an investment in its shares absolutely safe and let them double in value, as they will if they can earn 1 per



cent more than borrowers pay; but in excess thereof, let earnings be apportioned on the co-operative basis.

### ***Why Same Supervision as Nationals?***

13. One of the strongest features of this method is that the co-operative bank is to enjoy the priceless advantages of government regulation, federal supervision and public control which experience has proven to be so efficacious in the national banking system.

When the co-operative reaches the dignity of size required for a regular national bank, then the former should be entitled to membership in the local clearing house; during its earlier and smaller stage, it should "clear" through the regular national bank which is its correspondent. This is important, to insure that country checks shall have validity and force, so as to forever do away with the discriminating charges for collecting country checks.

Even the humblest little co-operative bank would thus become indirectly affiliated with the American Reserve Union, and would look forward to the time when it was directly a member thereof; thus it would be part and parcel of the American fiscal system, and not an isolated and separate unit. In every way it would be "run just like a bank."

### ***Why and How Educational?***

14. Shareholders, directors and officers of these little people's banks could quickly educate themselves in the essentials necessary to the largest success in the management of their institution. Not the least of the wonderful characteristics of the American people is their ability thus to adapt themselves, grasp ideas and methods, and to improve upon them.

These little banks will be quick to cater to the small borrower, for that is one of their original purposes. They know that while capitalistic banks are "gunning for deposits," such banks are not equally solicitous for petty loans. Too often their scheme is to get the little people's money, in order to loan it to

the big fellows in big business, or for use in speculation on the stock exchange. Some of our large commercial bankers have no conception of the manner in which a great institution like the Bank of France, for instance, caters to small borrowers as well as to small depositors; it buys millions of acceptances or other forms of petty loans in amounts from \$10 to \$50. Because conditions of the people and of business are so much different in America, that class of business is naturally the function of the little co-operative banks proposed.

One of the most efficient means for instituting national co-operative banks will be for the little state banks to reorganize as co-operatives. Their customers and the other people in the vicinity in many cases will be glad to join a co-operative corporation to thus take over a small bank which is established and doing some business.

By so doing the new organization starts with an old established business, upon which it can readily build a larger success. Of course, the price paid by the buyer to the seller would have to be a very conservative one, because in these cases the buyers represent practically all the customers. If they cannot buy out at a fair price the little bank with which they have been doing business, they can start one of their own at but slightly increased expense of money and labor.



**SOLID AS GIBRALTAR**

One of the main propositions in each and every people's bank, whether under national or state law, should be to make it solid. Keep the institution strong by adding to its surplus instead of trying to pay large dividends. Increase in surplus means decrease in liability to shareholders and greater security to depositors. There is a wealth of advantages, and no disadvantages, to the policy that makes a bank impregnable.

It will be to the advantage of both parties therefore to get together upon reasonable terms, especially if the management of the little state bank is of a character that the new institution would wish to continue. One of the principles of co-operation is for consumers to thus take over

the agencies that supply their needs rather than unnecessarily multiply such agencies by starting new banks or stores.



## Part Six

# An American Land Mortgage Banking System

### Contents of this Part

#### Chapter XXVII—Elements of Land Banking

|                                                | PAGE |                                                                  | PAGE |
|------------------------------------------------|------|------------------------------------------------------------------|------|
| No adequate system for mobilizing land credits | 247  | Disastrous fluctuations in value of New York and Berlin property | 250  |
| A nation of depositors, not investors          | 248  | Mortgage needs of agriculture                                    | 251  |
| The great need of agriculture                  | 249  | Mobilizing long term loans on rural property                     | 251  |
| Farms better security than town real estate    | 250  | The three elements involved                                      | 252  |

#### Chapter XXVIII—Co-operation in Acquiring Homes

|                                                        | PAGE |                                                               | PAGE |
|--------------------------------------------------------|------|---------------------------------------------------------------|------|
| Marvelous success of the building and loan association | 253  | Growing in numbers and usefulness                             | 256  |
| Originated and conducted by American working men       | 253  | Copied in other countries                                     | 256  |
| Rent pays for the home                                 | 253  | Strictly confined to limited localities                       | 256  |
| Remarkable record of achievement                       | 255  | Miscalled "Nationals" a fraud upon the co-operative principle | 256  |
| Funds come from deposits of wage earners               | 255  | Merits of the system in towns and cities                      | 257  |
|                                                        |      | Not adapted to agricultural conditions                        | 258  |

#### Chapter XXIX—European Mortgage Finance

|                                                             | PAGE |                                                      | PAGE |
|-------------------------------------------------------------|------|------------------------------------------------------|------|
| The German landschaften                                     | 259  | Why unsatisfactory to farmers                        | 264  |
| Its land bonds, interest and amortization                   | 260  | Important lessons from foreign experience            | 266  |
| Co-operative restricted to a single state, run economically | 260  | Foreclosure made easy, quick, inexpensive            | 267  |
| The Credit Foncier de France                                | 262  | The United States needs a thoroughly American method | 267  |
| Loans, rates, lottery features                              | 262  |                                                      |      |

#### Chapter XXX—The Method for America

|                                                        | PAGE |                                                                             | PAGE |
|--------------------------------------------------------|------|-----------------------------------------------------------------------------|------|
| Outline of an American method of land mortgage banking | 269  | Fair inducements to co-operative and other banks to come into the land bank | 273  |
| Adapted to conditions throughout the United States     | 270  | Why confine each land bank to a single state?                               | 275  |
| A land bank for each state under national law          | 270  | Grave importance of the state being the unit                                | 276  |
| The LAND RESERVE is inviolate permanent capital        | 271  | How the land reserve is created                                             | 277  |
|                                                        |      | Why land reserve certificates are attractive investments                    | 278  |
|                                                        |      | Commercial banking distinct from, yet co-operates with, land finance        | 281  |

#### Chapter XXXI—How the Land Bank Operates

|                                                        | PAGE |                                                            | PAGE |
|--------------------------------------------------------|------|------------------------------------------------------------|------|
| Its membership and co-operative representation therein | 282  | Relation of the local rural bank to the land bank          | 285  |
| Land banking kept separate from commercial banking     | 282  | The farmer's relation to the land bank                     | 287  |
| How organized and conducted                            | 283  | Great advantage to the farmer                              | 289  |
|                                                        |      | Present rates for interest only may also pay off principal | 289  |

#### Chapter XXXII—Benefits to Investors and Others

|                                                        | PAGE |                                                                                | PAGE |
|--------------------------------------------------------|------|--------------------------------------------------------------------------------|------|
| Why a land bank's farm bonds are the safest investment | 291  | Guarding against historic error                                                | 296  |
| May become even better than government bonds           | 293  | A national federation of land banks to issue bonds for the foreign market only | 297  |
| Legal investment for all savings and trust funds       | 294  | Land banking must be a development, not a boom                                 | 300  |
| Will convert tenants into proprietors                  | 295  |                                                                                |      |



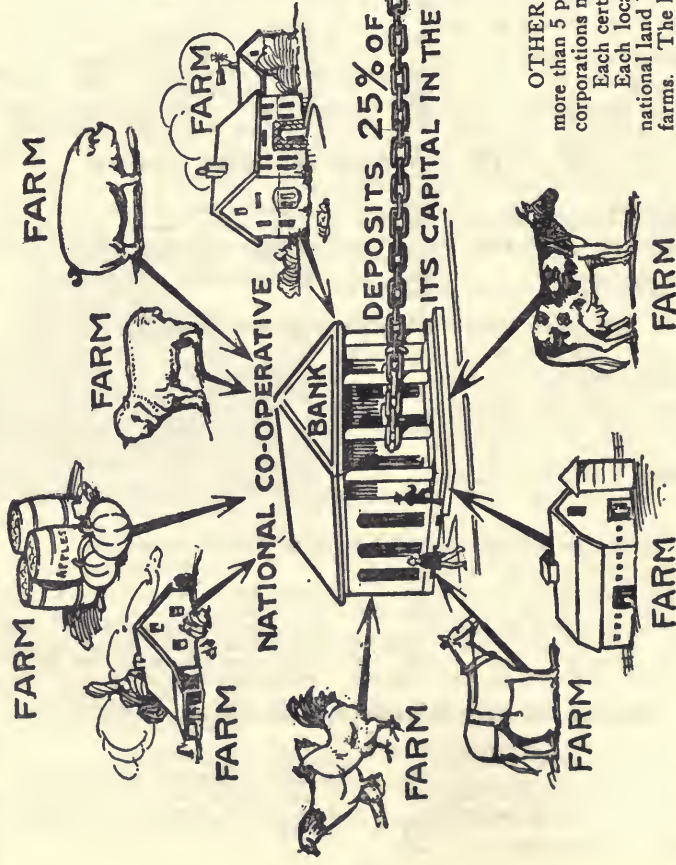
# Scheme for a Land Bank in Each State Under the National Banking Law

*Decentralizes* mortgage credit for the benefit of each farmer who needs it.

*Centralizes* the security, supervision and management of land credit.

*Attracts* the funds needed to meet borrowers' demands.

*Mobilizes* all mortgages as a basis for absolutely safe investment bonds.



The farmers become members of a co-operative savings and loan bank, which they organize in their own vicinity under the NATIONAL banking law, as described in Chapter XXVI.

This local bank deposits 25 per cent of its capital in the land reserve certificates of the land bank for its state incorporated under the NATIONAL banking act.

Thus both the farmers individually, and all of their national co-operative banks, become associated in the national land bank for their state.

Each of these local banks may not pay a dividend to shareholders until it has accumulated a surplus of 25 per cent, thus having available for their own purposes an amount equal to their permanent deposit in the land reserve.

OTHER regular national banks may deposit not less than 1 per cent nor more than 5 per cent of their capital in the land reserve. Other individuals and corporations may invest therein, subject to the trustees' acceptance thereof.

Each certificate holder has but one vote in the land bank.

Each local bank is a market for the sale of the land bonds issued by the national land bank for its state upon the security of the mortgages it holds upon farms. The local bank is sponsor for such mortgages, but its liability is specifically limited.

The borrower makes his payments of principal and interest, and does all the business pertaining to his mortgage, with his local co-operative national bank.

The headquarters for the national land bank for each state should be an imposing fireproof structure that shall be the headquarters for all the agricultural and home economics interests of the state.

Under STATE law, local co-operative banks may be organized and may likewise hold an interest in the land bank for their state incorporated under state charter. Both types of savings and loan banks and of land banks—that is, NATIONAL and STATE—will have plenty of business, just as do existing commercial banks under national and state charters.

**Chapter XXVII**

***Elements of Land Banking***

*No adequate system for mobilizing land credits*

*A nation of depositors, not investors*

*The great need of agriculture*

*Farms better security than town real estate*

*Disastrous fluctuations in value of New York and Berlin property*

*Mortgage needs of agriculture*

*Mobilizing long term loans on rural property*

*The three elements involved*



Stick a Pin Here

NE of the gravest defects of the American fiscal system heretofore has been its failure to mobilize what may be termed land credits, in contradistinction to personal credits or commercial accommodation.

To borrow money on real estate, one has to go to individuals or corporations which have the actual cash to loan or to invest for long time upon real estate security. Even when the mortgage is negotiated, there are no facilities whereby the lender may rediscount the mortgage in case the lender desires more funds for any purpose.

America has no general system whereby mortgage securities may be readily rendered marketable and available, or may be converted into a form in which the mortgage could be conveniently used for collateral or sold for cash. We have had no system whereby the great bulk of people who have small sums to invest might put their money into land mortgage bonds or similar instruments secured by mortgages on first-class real estate.



### ***Americans Depositors, Not Investors***

Hence America is a nation of depositors, who place their money in savings banks and other institutions that loan it out on mortgage or employ it otherwise: whereas France and Germany are nations composed largely of investors rather than depositors, because the individual people there invest freely in land mortgage bonds, which are sold in small denominations and with such safeguards as to make them one of the most popular forms of investment.

Stick a pin here: Because our people are depositors instead of investors, our billions of savings deposits help to swell the vast resources available for gambling in stocks and commodities. The consequences are trusts and swollen fortunes for the few, less production and increased expenses for the many. The evil is flagrantly apparent when funds which should be available for investment in mortgages upon farms and homes, are nefariously employed in non-productive speculation.

### ***Present and Past Types Not the Thing***

It is true that we have in America a few large trust companies which have realized this need, and have used their mortgage loans as the basis for an issue of debentures in small denominations. The latter are guaranteed principal and interest by the trust company and are sold throughout the world. But their mortgages are placed mainly in New York city and vicinity, and their purpose is private profit to the stockholders of the trust companies rather than to furnish funds to borrowers at the lowest possible rates of interest consistent with safety, in order to supply lenders with an investment as attractive in every respect as government bonds of the highest type. These institutions lack the rigorous public supervision which is an essential feature of a comprehensive land-banking method.

One of the earliest efforts to mobilize American farm mortgages for the profit of the middleman was made by the Lombard investment company, which many years ago sold in the East its debentures drawing high rates of interest and secured by mortgages on Kansas farms at still higher rates. Being subject to no



supervision, it induced farmers to borrow more money than they could advantageously employ or be sure to pay back, and in spite of the enormous margin for profit and expenses between the borrower and the lender who bought the bonds, the final result was disastrous failure.

### ***The Great Need of Agriculture***

Agriculture has languished in America, of late years, partly because the increasing value of land and the greater cost of its cultivation require the employment of more capital than the farmer can afford to pay the current high rates for. In many cases it has been quite impossible for the farmer to borrow any reasonable amount upon his land, even at this high interest. The lower the rate upon farm mortgages, the less is the cost of producing food products, and therefore the lower will be the cost of living.

At present the average rate of interest on farm mortgages in the United States, taking the country as a whole, is nearly twice as much as the income produced by national or state bonds. The average interest per year upon \$1,000, in the case of United States bonds, as Yoakum has pointed out, is only \$20, call loans at New York \$25, time loans \$36, commercial paper \$41, French farm mortgages \$43, German farm mortgages \$44, strong railroad bonds \$46, best public utilities \$50, city mortgages \$50, best industrials \$55, average industrials \$65, mortgages upon Arab farms in Egypt \$80, American farm mortgages \$85! President Taft thus summed up the situation:

"The 12,000,000 farmers of the United States add each year to the national wealth \$8,400,000,000. They are doing this on a borrowed capital of \$6,040,000,000. On this sum they pay annually interest charges of \$510,000,000. Counting commissions and renewal charges, the interest rate paid by the farmer of this country is averaged at  $8\frac{1}{2}$  per cent, as compared to a rate of  $4\frac{1}{2}$  to  $3\frac{1}{2}$  per cent paid by the farmer, for instance, of France or Germany.

"Again, the interest rate paid by the American

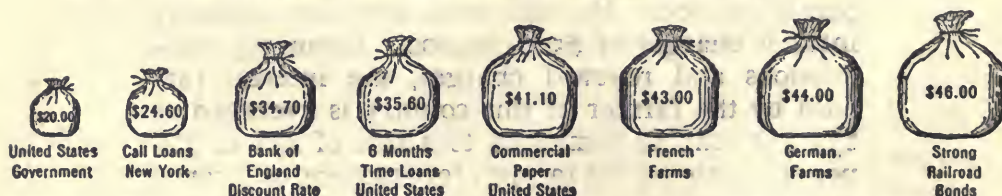
farmer is considerably higher than that paid by our industrial corporations, railroads or municipalities. Yet, I think, it will be admitted that the security offered by the farmer in his farm lands is quite as sound as that offered by industrial corporations. Why, then, will not the investor furnish the farmer with money at as advantageous rates as he is willing to supply it to the industrial corporations? Obviously, the advantage enjoyed by the industrial corporation lies in the financial machinery at its command, which permits it to place its offer before the investor in a more attractive and more readily negotiable form. The farmer lacks this machinery, and lacking it, he suffers unreasonably."

And at the highest rate of all, the American farmer may have greater difficulty in obtaining a mortgage than any of these other borrowers. Yet he is notoriously responsible and sure to pay.

### ***Farms Better Security Than Town Real Estate***

Usually the rate is much higher on American farm mortgages than upon city real estate. Hence the unhealthy development of cities at the expense of the country. Yet intrinsically, economically, and actually the farm loan is the safer. In all well-settled regions, farm values are not so liable to change and decline as are the values of city real estate. Moreover, as the agricultural industry yields products that are always in demand for actual consumption, the land and its use constitute a fundamentally better security than city real estate and commercial industry.

The violent changes in the values of real estate even in the metropolis of New York, during the past five, ten and twenty



WHAT IT COSTS IN INTEREST TO BORROW ONE THOUSAND DOLLARS ON TYPICAL KINDS OF SECURITY

(From B. F. Yeakum's article in *The World's Work* for September, 1912—Copyright)

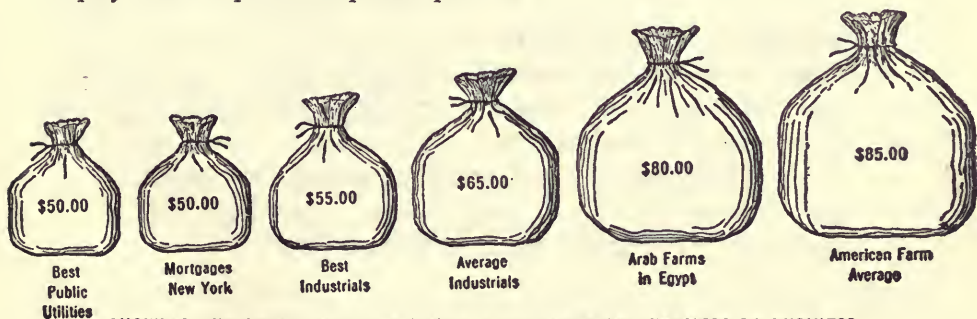
years, demonstrate this truth. There are said to be acres of vacant space in the old-fashioned buildings and lofts in certain sections of New York city, whose tenants have deserted them for more modern structures equipped with every convenience.

Under an adequate system of mobilization, therefore, farm land credits should attract capital at a lower rate of interest than city real estate.

Precisely this result has occurred in Europe, where the farmer borrows money upon the security of his farm at a lower rate than is charged upon city property. Whereas the Saxony farmer can now get money on mortgage at 4 per cent interest, the rate upon central business property and upon residences in the growing city of Halle, the thriving capital of that province, at present is  $4\frac{1}{2}$  to 5 per cent.

In other words, the German farmer, through co-operative effort, gets mortgage money one-tenth to one-fifth cheaper than can city property. The recent over-speculation in Berlin real estate is fresh evidence of the truth here emphasized.

How the American wage earner has solved this problem is described in the next chapter. But while the co-operative building and loan association is ideal for those in receipt of wages regularly, for that very reason it is not generally applicable to farmers. The financial returns from agriculture are irregular as to date and amount, though usually assured in the course of the year. The farmer must obtain such permanent capital as he needs to borrow, upon terms that not only are reasonable as to interest, but also both reasonable and convenient as to payments upon the principal.



SHOWING THE GREAT HANDICAP UNDER WHICH AMERICAN FARMERS DO BUSINESS.



***The Three Elements Involved***

How to do this, while also encouraging thrift, prosperity and patriotism among all the people, has been demonstrated by nearly 150 years of successful experience in Europe. The methods there vary in detail, but all are based upon these principles, which must be employed also in the United States:

1. Loans are made upon farms, sometimes upon other improved and productive real estate, upon an ample margin of safety. The principal is reduced by small annual payments (amortization).

2. Upon the security of such mortgages, bonds or debentures are issued in small or large denominations, which are sold to the public, and thus are secured the funds needed by the borrowers.

3. The rate of interest exacted of borrowers is comparatively low, and the interest yield of these farm mortgage bonds is correspondingly low, but the whole matter is so co-operatively and efficiently organized, managed and publicly supervised, that expenses are reduced to a minimum, middlemen's profits are eliminated, and these securities vie with government bonds in popularity, salability and stability as the safest form of investment.



Old Uncle Sam remarks: "Now we farmers have got something solid to sit on, haven't we? And say, you can see now why the farm bonds issued by the national land bank of this state are as good even as my government bonds!"

**Chapter XXVIII**

**Co-operation in Acquiring Homes**

*Marvelous success of the building and loan association*

*Originated and conducted by American working men*

*Rent pays for the home*

*Remarkable record of achievement*

*Funds come from deposits of wage-earners*

*Growing in numbers and usefulness*

*Copied in other countries*

*Strictly confined to limited localities*

*Miscalled "Nationals" not on the co-operative principle*

*Merits of the system in towns and cities*

*Not adapted to agricultural conditions*

**T**HE American working man has partly solved this problem of furnishing capital for home owning, through the beautifully efficient system of co-operative building and loan associations, which was originated in the United States and has developed to its highest perfection in this country.

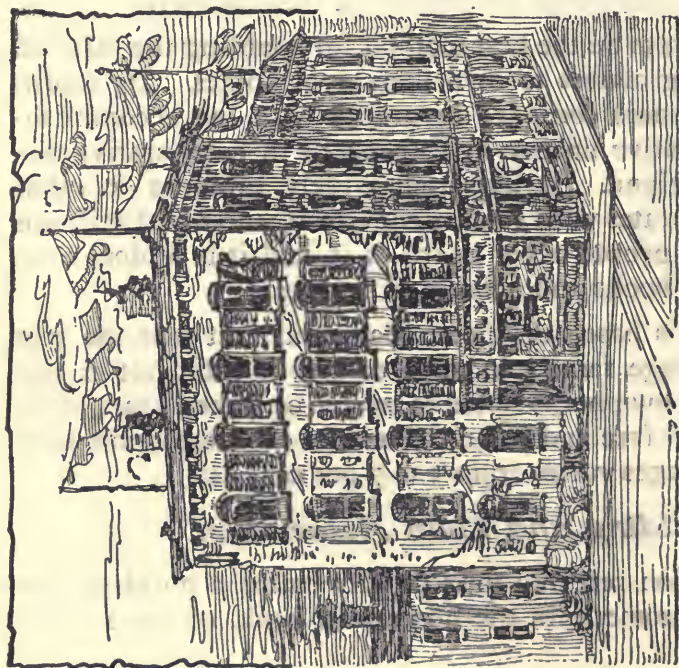
It has proven to be the best method for enabling the salaried and wage-earning classes to own their own homes. Its results for our wage-earners compare favorably with the accomplishments of co-operative finance in Europe, or of co-operative distribution in England. It has been widely imitated in other countries, yet operates with such silent effectiveness that millions of the American people never heard of it, and it is seldom even mentioned in the books and debates on finance!

The system is based on the fundamental fact that the rent paid by the average family in town or city is sufficient to buy and pay for their own home in ten to twelve or fifteen years, after which they own it free and clear. The rate of interest now paid upon such mortgages varies from 5 to 7 per cent net.

***Building and Loan Association***

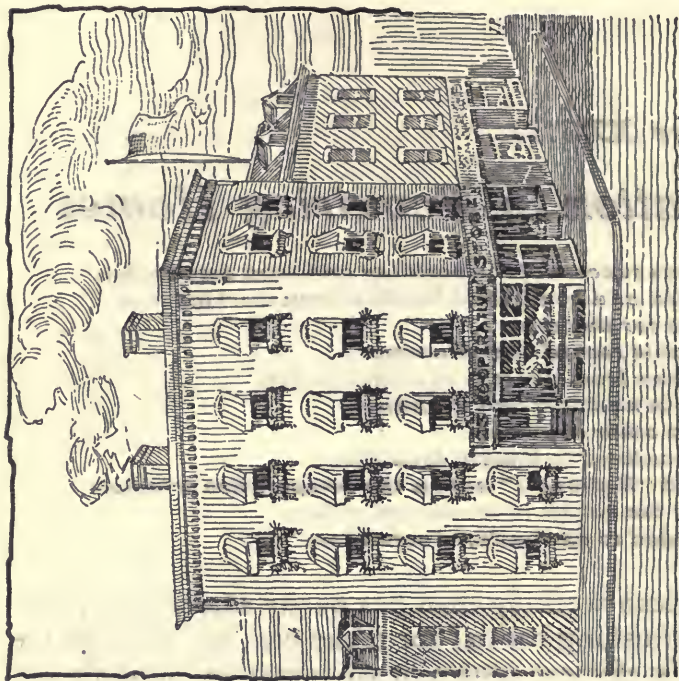
The institution referred to is usually called a building and loan association, sometimes the homestead bank, or the savings





### *Before—Joining the Building and Loan Association—After*

The above is no fancy sketch. Just such transformations have been effected in a great many cases, where one or more families have co-operated through the building and loan association. Of late years this method has been applied to the purchase of blocks or apartment houses. In numerous cases the wage earner or salaried man builds a two or four-tenement house, with the assistance of the building associa-



tion. He occupies one apartment, the income from the other pays all carrying charges and meets the monthly dues on the shares. Meanwhile the family get their own rent free, besides gradually paying for their place. In from 10 to 15 years such a family will own the property free and clear. I know of several such cases. The stories of them are rich in human feeling, thrill with endeavor and inspire happiness.



and loan bank, or building society; only in Massachusetts is it called a co-operative bank. It is more successful in America than elsewhere.

Some 6,000 of these local societies to encourage home-ownership exist in the United States, with about 2,250,000 members, and with assets in excess of one billion dollars. Probably half a million homes have been paid for in this way, and perhaps as many more are now being acquired by their owners through this system.

With the improved management now in vogue, these societies are rapidly increasing their membership and usefulness. Pennsylvania has 1,500 of these people's institutions for home-ownership, with nearly \$200,000,000 of assets and over 400,000 members. Ohio, New Jersey and Illinois each have over 500 of these banks. Their assets in Ohio are almost as great as in Pennsylvania, while in each of several other states these little but effective institutions have a total of from 50 to 100 millions of dollars in assets. In 1882, the writer assisted in establishing these societies in a state which already has about 50 of them, with over \$65,000,000 of resources, and their number and assets bid fair to double during the next decade. In co-operation, as in capitalism, nothing succeeds like success.

### *Wage-Earners' Savings*

The capital employed by building and loan associations is practically all deposited by working men in monthly dues, and loaned to working men for the purpose of paying for homes. The loan is secured by a first mortgage, which is taken for as high as 80 per cent of the value of the property. The loan is paid off in monthly installments of principal and interest, which makes even a large proportion of the total value of the mortgaged property a safe loan.

On each \$200 borrowed, the borrower pays \$1 monthly upon the principal over and above the interest. The money thus paid in begins to draw interest at once, and this helps to gradually reduce the principal owed, so that at 6 per cent the loan is paid off in about 140 months.

### ***Growing Everywhere***

Thousands of families have paid for their homes in this way. Philadelphia is largely built up through this system. That one city alone has nearly 800 of these co-operative building and loan associations, with over \$90,000,000 of assets, or nearly \$60,000,000 more than the combined capital of all the national banks in Philadelphia!

Most of the states exempt these institutions from some or all kinds of taxes.

Nothing in the history of the world is of more benefit to the working man than the lessons of thrift that are given by these co-operative banks.

England has about 1,600 similar banks, with assets of \$330,000,000, but only of recent years has this method been developed to any large extent in European countries. Germany took up the idea from America a dozen years ago, and has now about a thousand of such banks, with 75,000 members who have built about 20,000 homes.

In America, more than thirty-five states have institutions of this character. Twelve states have leagues of these co-operative banks, and these leagues are united in a national organization.

### ***Strictly Confined to a Limited Locality***

The state leagues of building and loan associations admit only local societies that are strictly confined to a limited territory.

Some years ago, the miscalled "national" building and loan associations were exploited for private profit, under state charters without public supervision, and having no relation with or responsibility to the national government. In most cases they resulted disastrously, because they violated some or all of the principles of co-operation and of sound finance. The operations of some of these "nationals" were so notorious that some states prohibited them entirely.

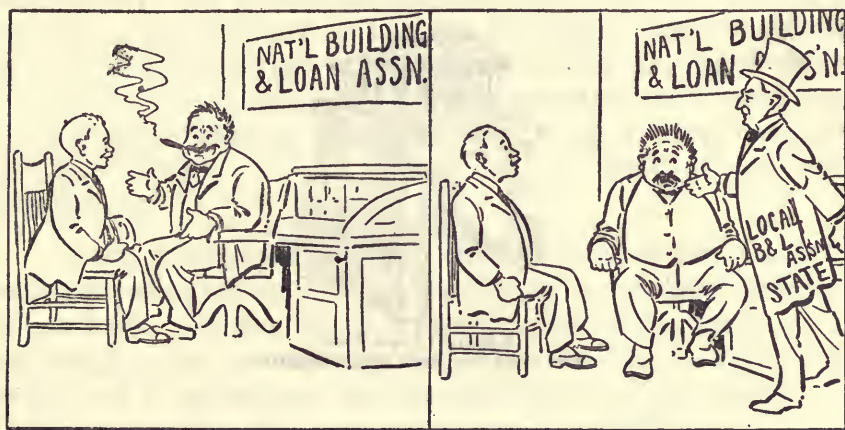
Such nationals were leeches upon the principle of co-operative building and loan associations, just as promoters and

middlemen now seek to fasten themselves upon the American co-operative land mortgage system advocated in this work. That whole ilk must be kept out of the co-operative movement.

### *Merits of the System*

These building and loan associations have proven to be absolutely safe, even during times of depression and panic; they are economically managed, and are worthy of universal support and encouragement. In establishing and conducting them, the United States has led the world. They ideally serve families who enjoy a regular income. They are typical of what can be accomplished through co-operative finance for home-ownership, by "the common people."

Yet this is the first book to point out the bearing these institutions have upon a general reform of the American fiscal system. Much has been said and done to inform the American people about co-operative finance in Europe, but hardly a word has been uttered to direct attention to the amazing fact that right here at home we have a type of co-operative bank which is an object lesson to the world.



THE PLOT

EXPOSED

The local co-operative building and loan association years ago proved so successful for thrifty working men, that promoters started the mis-called "national" building and loan associations. In many instances, such a promoter misled the citizen into doing business with the so-called "national." Instead of sticking to the legitimately managed and properly conducted local building and loan association. In some communities the state intervened and drove out of business these mis-called "nationals." The dismay of the promoter can be readily imagined, when the state steps in to protect its citizen from being exploited.

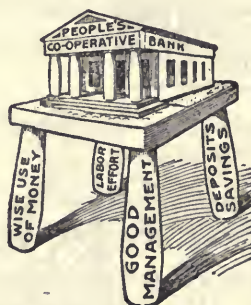
The working man thanks the state and remarks: "Queer how these fakers try to exploit it as soon as we work up a good thing for ourselves."



Through these institutions the "average working man" has shown the willingness to serve, the patriotic idealism, the executive capacity, and the business ability which are the elements of co-operative success.

The building and loan association should become universal in cities and towns. It has proven to be just the right thing in just the right place for people who are receiving wages or salaries regularly. For this very reason it is not applicable to farmers generally, though in a few instances farmers have employed successfully the system of the savings and loan association, notably in St. Lawrence County, New York.

I believe that for the vast majority of home-desiring people in cities and towns, the building and loan association is a better plan than the mortgage-and-bond method required by rural conditions. The former type should continue to be under state laws, but these laws can be improved greatly in some of the states. The national and state leagues of building and loan associations may well be more aggressive and efficient in their propaganda, especially at this time when general interest is so keen in every phase of co-operative finance.



A SOLID FOUNDATION  
Each of the four legs is equally important.

## *Chapter XXIX*

# *European Mortgage Finance*

*The German landschaften*

*Its land bonds, interest and amortization*

*Co-operative, restricted to a single state, run economically*

*The Credit Foncier de France*

*Loans, rates, lottery features*

*Why unsatisfactory to farmers*

*Important lessons from foreign experience*

*Foreclosure made easy, quick, inexpensive*

*The United States needs a thoroughly American method*

**T**HE German landschaften is the oldest type of successful land mortgage banking co-operatively conducted for the mutual benefit of borrowers and lenders without profit to promoters. The borrowers unite in an association to issue bonds secured by the mortgages upon their farms. These bonds yielding 4 per cent now sell at par, although money is now dear in that country; formerly, they commanded par when the rate was only 3 to 3½ per cent. These pfandbrief, or land bonds, are not only a legal investment, but are the popular investment for trust funds, savings banks, etc., as well as for thrifty individuals.

If the pfandbrief at 4 per cent commands par, the farmer pays 5 per cent yearly upon his mortgage, or \$50 upon each \$1,000 of his loan. Of this yearly payment, \$40 covers the 4 per cent interest, \$7.50 is annually applied upon the principal (amortization), and \$2.50 goes to the landschaften for its expenses. This latter one-quarter of 1 per cent annually affords a large surplus to the landschaften over and above its extraordinarily modest expenses, it makes earnings from its other funds, and after setting aside ample reserves, the profits remaining are available for dividends upon capital, or to borrowers as profit-sharing dividends to be applied upon their debt.

### ***Cheap Money for Long Periods***

Thus it is that, while it takes about 46 years for \$7.50 paid in annually and compounded at 4 per cent to reach \$1,000 and pay off the debt, in the Saxony landschaften the farmer's mortgage usually is paid off in 25 to 35 years, although his amortization payments and contributions toward expenses seldom exceed 1 per cent annually upon the principal of the debt. The last few installments on a mortgage may be anticipated, and this tends to reduce the average life of a mortgage to about 25 years.

When money sells at 3 per cent, the farmer's mortgage is wiped out in 25 to 40 years by total annual payments (interest and amortization) of 4 per cent upon the amount. If interest is  $3\frac{1}{2}$  per cent, his total payment is  $4\frac{1}{2}$  per cent; or if money is worth 4 per cent, as at present, the farmer's debt is liquidated by annual dues of 5 per cent. If he borrows at 4 per cent interest, and later on money drops to  $3\frac{1}{2}$  per cent or 3 per cent, the farmer can refund at the lower rate that portion of his debt then outstanding.

The borrower does not receive cash from the landschaften, but instead receives pfandbriefs, which he proceeds to sell and thus realizes the cash. As a matter of fact, the debentures are usually handed to him at one desk, and are cashed by the borrower at another desk in the banking or sales department of the same institution, which proceeds to sell the issue through the usual channels.

### ***Confined to a Single State***

A landschaften usually confines its operations to a single province or smaller area. It is a co-operative institution under public supervision. It cannot refuse to make a loan to a farmer-member, but it cannot be forced to make a larger loan than its judgment dictates is wise and safe. It has to compete with other institutions and individuals who loan money to farmers. In some of the eastern provinces, the landschaften has negotiated from one-third to one-half or more of all the mortgages now outstanding on agricultural real estate; in western Germany this system has made no such progress.

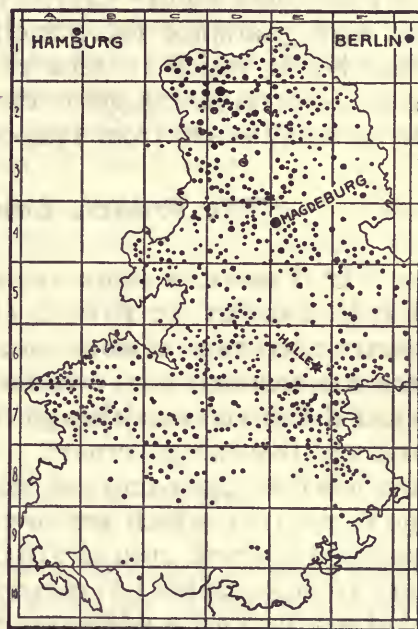


Provided the *landschaften* furnishes farmers with money at lower rates, or gives them better service than do other lenders, it gradually absorbs a larger and larger proportion of the farm mortgage business, but never expects to get it all. Its business usually is confined to farm mortgages, for either large or small estates, or both, but special effort is made to encourage the little cultivator, who has only three to ten acres or so.

### *Earnings and Expenses*

Some *landschaften* are not run for profit upon capital, which is small relative to its outstanding debentures, but after not to exceed 4 per cent interest has been paid on its capital and reserve funds, any profit remaining is added to reserves, until the reserve accumulation against each mortgage reaches 5 per cent thereof, when a part may be credited as a small dividend upon the debts due from borrowers.

The operating cost is so small as to amaze the American. Only the head men and employees whose time is wholly devoted to the *landschaften* are paid; committees and local representatives serve without compensation, such positions being esteemed highly honorable. In some instances, the total expenses consume less than half of the one-fourth of 1 per cent received annually upon loans for the expense fund. Yet the institution usually owns and occupies a large building, with offices, committee rooms and assembly



CO-OPERATIVE BANKS AND SOCIETIES IN SAXONY

In this chart each dot represents a co-operative rural bank or other form of associated effort among farmers. This German province is a trifle larger than the state of Connecticut and has nearly five times the population, twice as many acres of improved land and nearly four times the population per square mile. Such results are largely due to co-operative finance. Connecticut has so few of such institutions that dots on it would hardly show at all. The University of Halle is the first in the world to have a seminar on co-operation. I was deeply edified and greatly helped by my personal experiences and investigations in Saxony, assisted by Prof. H. C. Price.

hall ample for their purpose, conveniently arranged, simply but artistically furnished, and possessing an atmosphere of stability and dignity that reflect good agriculture and sound finance.

### ***Rigorous Supervision***

An effective body of law exists for so governing these institutions that their methods and securities command universal confidence.

The capital and reserves must always equal 5 per cent of the outstanding obligations. In other words, experience in these institutions under German conditions proves that for each \$1,000 of permanent funds—capital stock and reserves—the landschaften may guarantee the principal and interest upon \$20,000 of land bonds, which are secured by the deposit with it of properly selected farm mortgages to the amount of \$20,000, such property to be fairly worth from \$30,000 to \$40,000.

### ***The French Land Mortgage Society***

In France, a more centralized system is in vogue. The Credit Foncier de France (fon-ce-ay') is a corporation with \$40,000,000 capital stock, in shares of \$100 each, controlled by the 200 members who own the largest amount of stock, and they elect the directors, although the government appoints its governor and two sub-governors. After paying 5 per cent dividends, not less than 5 per cent nor more than 20 per cent of the earnings go to reserves, which are now upward of \$20,000,000, so that its shares are worth around \$165. The debentures it has outstanding are approaching \$1,000,000,000, so that the reserves (capital and surplus) are a trifle over 5 per cent of the obligations. Six-tenths of 1 per cent is allowed for expenses, or much more than in Germany. The Credit Foncier is run mainly for profit to its shareholders.

### ***Loans and Amortization***

It loans money to cities and towns, also on farms and homes. Short-time mortgages run from one to nine years, all the prin-



capital being payable at maturity. Long-time mortgages, with annual amortization, run from ten to 75 years, according as the borrower may prefer. Loans are made only upon productive real estate to not exceed half its value, and this limit is reduced to only one-third the value of vineyards, woods or similar more risky real estate. The rate of interest paid by the farm borrower is usually 4 to  $4\frac{1}{2}$  per cent.

The amortization, or annual installment upon the principal, "extends over the whole period of the loan, so that the total of the interest and capital is repaid from a constant yearly annuity. Consequently, the cost of amortization depends on the length of the loan and on the rate of interest. On a loan running for 75 years, at 4.3 per cent interest, the annuity or total payment to be made each year, including interest and amortization, is at the rate of 4.48 per cent per annum. The borrower has the right to pay the principal of the loan at any time and to profit by the amortization already made. He can also make partial payments and thereby reduce the amount of the annuity."

The miracle of compound interest makes possible the wiping out of principal of a debt "practically without feeling it." The small sum of one dollar paid annually and compounded at only 4 per cent amounts to \$131.94 in 46 years. Thus it is that a payment of only \$7.50 each year upon the principal of a mortgage for \$1,000, will wipe out the mortgage in full in just about 46 years, if this payment is compounded at 4 per cent annually.

### ***Sells Bonds with Lottery Prizes***

The Credit Foncier obtains money to loan by selling bonds on the security of the mortgages it holds. These real estate bonds, like the German pfandbriefs, have no fixed maturity, being similar to foreign consols in this respect, but are called for payment by lot. "Each payment of bonds must be of such an amount that the bonds remaining in circulation will not exceed the balance of the principal owed upon the hypothecated loans. The funds received from the usual amortization, or anticipated payments, must be used to amortize or redeem bonds, or to make new loans. In general, the bonds bear 3 per cent on their par



value, and the cost of the loans to the company, including interest, prizes and amortization, is about 3.6 per cent, which places them on a par with municipal bonds."

The bonds are sold in small denominations at public subscription, interest in which is stimulated by the system of prizes and premiums that so appeals to the lottery instinct of the thrifty French. About every three years, the company issues bonds sufficient to yield from \$50,000,000 to \$75,000,000, and the amount is usually many times over-subscribed, partly because of their lottery feature. The bonds are bought mainly by people of small means, and usually remain in their hands; consequently the quotations of the bonds show little fluctuations. The secret of the marketability of these securities bearing only 3 per cent lies in the lottery principle, which is contrary to American practice and illegal here. Moreover, some of the prizes are not paid until the debentures are redeemed, which causes the investor to hold on to them. A debenture for \$1,000 recently drew a prize of \$50,000!

### ***Not Satisfactory to Farmers***

Although the Credit Foncier does business all over France, it transacts only a fraction of the total farm mortgages in that country. The larger part of its loans are to cities and towns, upon the security of their public bonds. Of its loans secured by mortgages upon private property, from the time it began business until the close of 1911, there were 122,000 loans, amounting to \$935,000,000 upon city property and only 48,500 loans for \$246,000,000 upon rural property, not all of the latter being farms.

It is not surprising, therefore, to find much dissatisfaction among French farmers with the Credit Foncier, and their complaint is justified that it does not serve agriculture with any such efficiency and singleness of purpose as characterizes the landschaften system.

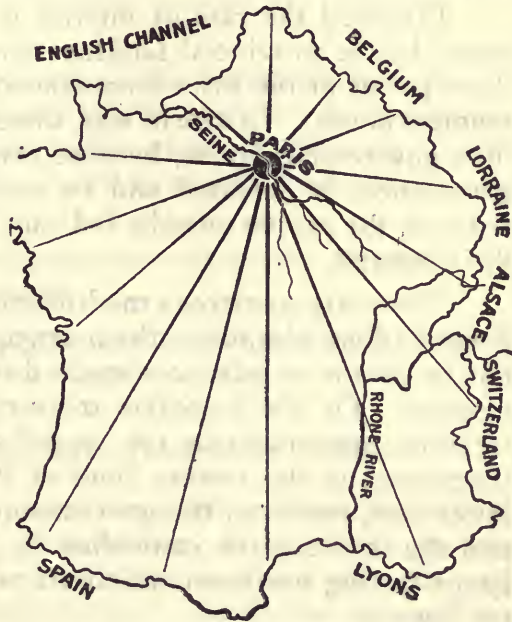
So widespread is this dissatisfaction, that other attempts are being made to provide the farmers with cheap capital, through the Credit Agricole, and also through a system of local and

regional banks subsidized by the government and fed by funds obtained by taxing the Bank of France. But there is now complaint of politics and favoritism in administering the subsidy—the fault common to all schemes that aim to do for the people what they should do for themselves.

Moreover, France is relatively small, being only about three-quarters as large as our single state of Texas. The French people are trained to a highly centralized form of government and of administration, and therefore a mortgage company may do successful business all over that country so limited in area and in variety of conditions. "Paris is France, and France is Paris."

German experience proves that the provincial *landschaften*, operating in a restricted territory, is more successful and its bonds sell better than do the securities of the national or imperial *landschaften*. The latter principle has been a distinct disappointment, even in centralized Germany, and should not be applied in the United States, with our vast areas and infinite variety of conditions. Nor do we want to imitate the French system.

The Credit Foncier is centralized mortgage banking, largely with cities and upon town property, for profit to stockholders. The *landschaften* is decentralized finance, mainly for mortgaging farms, and is operated in the interest of borrowers.



PARIS IS FRANCE

All of France is only about three-quarters the size of our single state of Texas. French farmers complain that the Credit Foncier of France does not properly provide for their interests. It is not what the United States needs.



### ***Lessons of Foreign Systems***

These two systems of mobilizing land credits are typical of the methods employed over much of Europe. Wherever wisely managed, they have been uniformly successful. This method is so simple, so reliable, so safe, that these German farm bonds, or debentures of the Credit Foncier of France, sell as freely as government bonds, and usually command almost as high prices.

Provided the rate of interest is the same, the farm bonds issued by the provincial *landschaften* sell at within from one to three points of the price commanded by German imperial government bonds. In case of war, these *pfandbrief* may sell higher than government bonds, because investors feel that even if the government is defeated and its securities depressed, the land remains, the people must be fed, and the farmers can always pay their interest.

There are numerous modifications of the above two plans. Some nations administer the mortgage business through a bank, but by means of advances made directly from the government treasury. Or the imperial treasury, and also the provincial treasury, may subscribe for capital stock, or may make a large investment in the reserve fund of the mortgage bank. In the latter case, however, the government merely reserves oversight, and the institution is controlled by the borrowers—each mortgagor having one vote, which elects the directors who manage the business.

This co-operative principle is at the basis of the land mortgage banks of Germany, Holland, Belgium, Austria and other European countries, with the possible exception of France, although it prevails in the latter republic also.

While some grant of public funds may be made to the *landschaften* for its permanent reserve or original working capital, the law strictly provides for the accumulation of further reserves, and puts the management and responsibility for these institutions squarely upon the shoulders of the borrowers for whose benefit they are intended. The laws, imperial and provincial, under which these concerns are conducted, provide for every detail of the administration, and are most rigidly enforced, so that



it is utterly impossible for the society to abuse its privileges, or commit fraud with any mortgage or utter securities except those whose value and safety are insured.

### ***Ease of Foreclosure***

One vital feature in European co-operative mortgage finance, is the law whereby the lending corporation may foreclose upon the mortgaged property in case the borrower defaults.

This so adds to the security of the mortgage as to partly account for the low rate acceptable to investors in the bonds. They know the company can realize upon the property in case of need, without the manifold delays usually imposed by law upon mortgage foreclosure.

The borrower readily accepts these conditions in return for the many advantages he receives.

Our various states should embody similar provisions in their laws relating to co-operative mortgage banking.

### ***United States Needs an American Method***

Important lessons for the United States may be learned from the European system of mobilizing farm mortgages, but long personal experience in studying into their methods and intimate knowledge of agricultural conditions throughout America, lead to the conclusion that here in the United States we must not slavishly imitate these foreign systems, though we may profit by them in working out a perfected method of land mortgage banking which shall be perfectly adapted to American requirements. The method is economically sound, legally right, socially just, and has everything to commend it, provided it can be suitably adapted to American needs.

My own views also are fully confirmed by the observations of Myron T. Herrick, whose words should sink in deeply:

“Several conditions must be observed if organizations for the loaning of funds to land owners in this country are to be successful. The associations

must have a large capital. They must be established for the sole purpose of loaning money to land owners at low rates and for as long periods as possible.

"There should be no profit to promoters in the organization of such corporations, and their return to the stockholders must be kept within very reasonable limits. In other words, the borrowers and not the stockholders, should be the chief beneficiaries of the success of the undertaking. The mortgages held by the company should be exempt from taxation. Special laws would be needed and provision made for thorough examination by state or national authority or both."



TYPE OF ARCHITECTURE FOR THE FEDERAL LAND BANK IN EACH STATE

It should be modern and convenient, worthily dignified and proof against fire, flood, wind, vermin or decay. Besides providing headquarters for the land bank itself, the building may well house offices or quarters of all the state associations whose purpose is the promotion of agriculture, other industries or home economies.

Since the land bank deals with securities based on land, and since land supports all other interests, it is singularly appropriate that the headquarters of the land bank should also be the headquarters of state organizations whose purpose is the advancement of agriculture and home ownership. This visible evidence of the union of land and home, and of the institutions connected there-

with, will be a powerful advertisement for that relationship.

Reinforced concrete is an admirable medium for such a structure. I have been greatly pleased by our experience with reinforced concrete, in the Myrick building shown above. The spirit of that structure is co-operation, mutual confidence, service, happiness. It represents agriculture, home-making, education, labor, social welfare, art, science, journalism, manufactures, commerce, management, capital. Its architectural motif was the royal palace at Stockholm. The Myrick building has a floor area of 7.49 acres, with room for 5,000 co-workers, and is 283 x 105 feet. It is a Mecca for students of modern utilitarian-artistic architecture.



**Chapter XXX**

***The Method for America***

*Outline of an American Method of land mortgage banking  
Adapted to conditions throughout the United States  
A land bank for each state under national law  
The LAND RESERVE is inviolate permanent capital  
Fair inducements to co-operative and other banks to come  
into the land bank  
Why confine each land bank to a single state?  
Grave importance of the state being the unit  
How the land reserve is created  
Why land Reserve certificates are attractive investments  
Commercial banking distinct from, yet co-operates with,  
land finance*

**M**Y method for an American system of land mortgage banking is outlined in this chapter. Subject to such modifications as experience may suggest, this method is adapted to the genius of our people, meets their wants, possesses every safeguard of public supervision and ultimate control by lawmaking bodies, and yet is entirely independent of politics and bureaucratism. While making the largest use of institutions which now exist or that may be organized hereafter, the land banks are distinct therefrom, yet embody the wisest principles of co-operation and supervision, self-interest and representative democracy in finance.

My method is based upon the direct responsibility of the individual, promotes better farming and wiser thrift, while enabling these responsible individuals to co-operate for their own good, for the benefit of investors and for the general welfare. Experience has proven these to be the right principles. They imply help for self-help through co-operation, in contrast to combination on the one hand, or socialism on the other.

Only some of the fundamental principles for an American co-operative method of land mortgage banking can be outlined



below. The manifold details are to be worked out with great care. Much will be learned from experience in conducting land banks in this country. Federal and state laws providing for and governing land banks and their operations should be simple, effective, strict, yet should avoid going into unnecessary details, so as to leave these institutions reasonably free to work out their own salvation along the lines which experience proves to be the best.

### ***Adapted to United States Conditions***

The method is strictly co-operative in its representation of all parties in interest, yet the finest possible management is assured, though with extraordinary economy. There is almost no expense to the borrower, and none whatever to the investor, except the usual brokerage of one-eighth of 1 per cent.

The paramount advantages to banks of such a method for securing permanent mortgage obligations in mobile form, will induce banks generally to co-operate with the method. Commercial banks, national or state, feel the need of a means for re-discounting or realizing upon their quick assets; how much more they may require that their slow assets, which otherwise might be in non-negotiable mortgages upon real estate, may be in a form easily negotiated or sold. This beautiful result is achieved without involving the commercial bank in any liability, direct or indirect, in the land banks or in their obligations, other than a small investment in the land reserve.

My method is designed primarily in the interest of agriculture, to make loans on farms at reasonable rates, easily obtainable by borrowers, but after a fashion that shall be very attractive to lenders and investors. The same plan may be employed for urban homes, but for the latter nothing is better than the co-operative building and loan association previously described.

### ***Organization of a Land Bank in Each State Under National Law***

1. There shall be a national land bank in and for each state, incorporated under the national banking law, which

should be suitably amended for the purpose. Such institution shall be named the "National Land Bank for Nebraska," the name changing for the respective states. Each land bank shall have a permanent capital reserve, called the "land reserve," derived from the following sources:

2. Each national co-operative rural bank (described in Part Five of this work) in said state shall deposit 25 per cent of its paid up capital stock in the land bank's reserve.

3. Each of the other national banks in the state shall deposit in said land reserve an amount equal to not less than 1 per cent nor more than 5 per cent of its combined capital stock, surplus and undivided profits; but such deposit in excess of 1 per cent shall be subject to the land bank's acceptance. These other nationals, subject to said acceptance, may deposit 25 per cent of their capital, and thereupon shall participate in other privileges and responsibilities accorded the co-operative banks in the land bank's mortgage system.

4. The state itself, any state bank, or any corporate body or any individual, may deposit cash in the land bank's capital reserve, to such amounts as may be accepted by the land bank's trustees.

5. Whenever a national co-operative rural bank increases its capital, or as the capital, surplus and undivided profits of any other national bank increase, the above percentages of such increase shall be deposited in the reserves of the land bank; but to protect itself against a plethora of capital reserve, the land bank has the privilege of refusing deposits therein. After its surplus equals 50 per cent of its reserve, it also may retire any of its reserve upon due notice, provided the amount is replaced from its surplus, and the latter does not fall below 50 per cent of the land reserve.

### ***Land Reserve Is Permanent Capital***

The land bank will issue a certificate to each depositor for the amount deposited; when such deposit is increased, the old certificate will be surrendered and a new one issued for the full



amount. Thus, at all times, there will be outstanding only one certificate for each depositor in the land bank reserve.

When issued to a bank or state, this certificate shall be non-transferable, non-negotiable, non-hypothecable; when issued to a natural person, or to a corporation other than a bank, these restrictions shall not apply. Land reserve certificates shall be free from all taxation whatsoever—national, state or local, and shall not even be subject to inheritance taxes.

A deposit may be withdrawn from the land reserve only as follows:

Upon final liquidation of any bank which is a depositor, or of any corporate depositor, that portion of its deposits remaining after all its obligations (direct and indirect) to the land bank have been paid in full, may be withdrawn or transferred, less a pro rata part of any losses which may have occurred. The same procedure may be followed in the settlement of the estate of a deceased individual depositor, or his certificate may then be transferred to his heirs or assigns. But in any case, for any sums thus to be withdrawn, the land bank shall not be liable until it places an equal sum in its capital reserve, either from its surplus or from fresh deposits of outside capital. And no funds may be thus transferred to reserve from surplus, except out of the surplus which exceeds one-half of the reserve.

The land reserve is therefore the permanent capital of the land bank—its foundation asset, never to be encroached upon except to cover such losses as may not be defrayed out of the annual revenue or the accumulated surplus from previous years. Even the remotely possible withdrawal shall not be permitted unless the amount thereof shall have been made good. The capital reserve can never be depleted in any way, shape or manner, except by outright losses upon the mortgages held by the bank, and the safeguards provided are so strict that such losses in excess of the surplus revenues are practically impossible.

### ***Earnings and Safety of Land Reserve***

Land reserve certificates may receive not less than 2 per cent nor more than 4 per cent interest per annum, as one of the ex-



penses of the institution. Net earnings in excess thereof are to be carried to surplus account, until the surplus reaches in amount 25 per cent of the reserve. Then, three-fourths of the excess earnings shall be applied to surplus until it amounts to 50 per cent of the reserve, and meanwhile the other fourth of the earnings may be paid out as a co-operative profit-sharing dividend only upon such reserve certificates as *constitute one-fourth of the capital stock of the member-banks*.

When the surplus equals the reserve, the excess earnings may be equally divided between surplus, dividends upon reserve held by said member-banks, and profit-sharing credits to borrowers. Such dividends may be distributed in any year until the total income upon the reserve certificates specified—interest and dividends combined—amounts to not exceeding double the fixed rate of interest thereon. In other words, if the rate of interest on the reserve is fixed at 3 per cent, the certificate held by any bank that invested one-fourth of its capital therein may receive profit-sharing dividends up to 3 per cent more, thus getting a total income of 6 per cent; or if the fixed rate is 4 per cent, reserve certificates may receive as much as 8 per cent.

These provisions make land reserve certificates a most attractive permanent investment, yet the land bank reserves the right to refuse further deposits in its reserves, or to pay off the same, whenever it cannot use the money to advantage. In so doing, preference would always be given to the smaller depositor, thus guarding against too large a holding by any single interest. Individuals and corporations with funds for investment, in big or little sums, will be attracted by the safety and non-taxable nature of these certificates. Since land itself bears the taxes for the living or the dead, and since this land reserve is the basis of the whole structure of land credits, the land reserve certificates justly may be exempt from even death taxes.

### ***Fair Inducement to Co-operative and Other Banks to Come into the Land Bank***

Only such certificates as constitute one-fourth the capital stock of the subscribing banks may share in dividends in excess

of the fixed interest rate. Each of these little member-banks is responsible for one-fourth the ultimate loss upon any mortgage negotiated by them; therefore they are fairly entitled to a reasonable proportion of the extra earnings, after all expenses are met (including interest upon outstanding bonds) and surplus accumulations provided for. Yet if no limit were put upon the dividends which may be paid, the reserve certificates held by such banks might earn 10 to 15 per cent in the course of time; whereas the object of the whole method is not big profits to capital, but co-operative benefit to borrowers, after capital has received a fair return for its use in an investment quite devoid of risk. Without injustice to others, here is a strong inducement to promote the organization of the little local co-operative national banks, and to stimulate their interest in the land bank in whose extra profits they may share, and of which they are an integral part.

After the surplus equals one-half the reserve, a goodly proportion of the excess earnings may be returned pro rata to the borrowers in proportion to the length of time their mortgages have been in the bank. This will be fair to all mortgagors, whether the loan is old or young. Such profit-sharing dividend may be applied upon the principal of their debt, thus hastening the time when it shall be wiped out.

It is not wise for the law to be too specific as to rates of interest that certificates shall pay or that land bonds shall bear. Economic forces govern the money market, provided our fiscal system is such as not to interfere with natural law. Under the rearranged fiscal system proposed herein, interest rates throughout the United States will tend toward a more common level than has prevailed heretofore, but local conditions will have some influence, while economic conditions throughout America and the world, also the state of the popular mind, will continue to affect the supply, demand and prices of money and credits. Give natural law free play therefore, and do not attempt impossibly artificial "regulation" of rates of interest. If rates to borrowers are kept within 1 per cent or point of the interest paid to lenders, all concerned are safeguarded.

### ***Each Land Bank Confined to a State***

Unlike commercial banking which is so largely regardless of state lines, land mortgage banking necessarily must be confined within the political limits and legal limitations of the respective states. The traditions, habits, and customs of our people, and the laws relating to real estate, also demand that the state be the unit for land banking. The agricultural and allied industries are closely associated with the state's government and within its borders

Furthermore, with the state as its area unit, each land bank is practically workable, is not too cumbersome, and yet the method is fair to every state and section. By appealing to state pride and interest, competition is stimulated in the best management of these institutions, and in maintaining the standard of credit among the people of the respective states. If the Massachusetts land bonds command better terms than Alabama mortgage bonds, it will stimulate the people of Alabama to better economics, better farming and better laws, so as to make their securities vie with those of any other state.

An idea is abroad that there should be one great national organization to issue bonds secured by farm mortgages, such bonds to be guaranteed principal and interest by the United States government. The idea is chimerical, except as hereafter set forth; it violates every principle of sound banking, of help for self-help, of associated effort between individuals, of equality between the states, and is clearly unconstitutional.

### ***Why Limit the Territory?***

Moreover, that policy would tend to destroy the self-reliance of our people. It would inculcate the thought that "the government must support us all," as the peasantry of county Cork declared when they refused to plow or plant at the time that the success of Gladstone's home rule bill seemed imminent! All experience at home and abroad tends to show that the only safe way for handling this mortgage debenture proposition is:

(1) To have the closest local supervision, and the self-interest of the people in the vicinity where the mortgages are



placed, to insure that only good loans are taken, that interest and amortization are promptly paid, that the mortgaged property is maintained in good condition, and that there is no ultimate loss.

(2) Then to have the mortgage pool managed, and the securities against the pool issued, by an organization that is not "spread out too thin," yet which is big enough to command the confidence of a public sufficient to absorb its bonds.

### ***Grave Importance of State Units***

The state is the largest area in which a land mortgage bank may safely operate, even when it has such local agencies as are proposed. Even in the least wealthy state—say Wyoming—if the national land bank offers interest upon its land reserve only 1 per cent higher than do most other land banks, money would flow to it in an ever-increasing stream.

Furthermore, land reserve certificates being absolutely free of all taxation, would be an even better investment than government bonds, because of their present and prospective larger earning power. Thus each land bank could get all the money it needs for its land reserve; and this need being supplied, it can safely issue its bonds in any amount justified by the mortgages it owns and by the market demand for its securities.

The United States has had costly experience with concerns that ignored these principles. The co-operative building and loan association, when organized and-operated by the people in a limited locality, and conducted by them voluntarily at almost no expense, is a beautiful success. When promoters took hold of the idea, formed companies to exploit the building and loan association for private profit over the whole country or throughout a group of states, the scheme ended in disaster, after a period of chicanery, fraud and disappointment. That scheme was so inherently weak and vicious, that numerous states legislated against it. Nothing of the sort will be permitted under the American land mortgage system, which in every respect must be kept above suspicion.

### ***Under Federal and State Supervision***

The national land bank for each state would be under the direct supervision of the United States Treasury department, and subject to the laws of Congress. Their inspection, like that of other national banks, would be in charge of the comptroller of the currency, through the United States deputy controller in the zone embracing the whole or maior part of each land bank's state.

Where any state government makes a deposit in the land reserve, it shall be represented in the management of the national land bank for that state. Also the state may provide for the incorporation under state law of mortgage banks. The rights of any state are not infringed.

Any borrower upon mortgage, or investor in land bonds, who has a grievance against the local bank with which the business was transacted, or with the land bank, or any local bank dissatisfied with its state land bank, may appeal to the governing council for that zone.

### ***How the Land Reserve Is Created***

The amount of capital reserve with which any land bank may begin business should be equal to at least 1 per cent of the capital stock, surplus and undivided profits of the existing national banks in that state. In Nebraska, for instance, this would be a minimum of over \$250,000, which would be increased from year to year as those banks increase their capital, surplus and undivided profits. If their deposit were 2 per cent, the total sum would be double the above.

It is impossible to predict how many national co-operative rural banks would be formed in Nebraska, or how much would be their capital, but it is conservative to believe that within a very short time Nebraska would have two hundred such little people's banks, with an average of at least \$5,000 capital each; as one-fourth thereof in each case must be invested in the land reserve, the Nebraska national land bank would soon have a minimum of \$250,000 in its reserve from this source.

Individual citizens in that enterprising state, as well as the many state banks and corporations whose prosperity depends so largely upon the thrift of Nebraskans and the development of her agriculture, will be only too glad to make a deposit in the land reserve. Persons outside the state may also deposit, thus attracting funds from other regions of the United States or foreign countries. To start the land bank on the safest and soundest basis, the legislature of Nebraska may well vote to invest in the land bank reserve such amount of the state's funds as in the legislature's judgment is expedient, up to say not exceeding \$500,000, or \$1,000,000.

Any state whose people show the necessary interest and enthusiasm, will have no difficulty in establishing a land bank upon a secure basis of reserves. As the system grows in age, usefulness and popularity, the land bank will have more money offered for its capital reserve than it can employ, will have to refuse such offers, and in a few years may retire some of its reserves by making good the amount out of its surplus after the latter equals at least half of the reserve.

The 1 per cent to 5 per cent of national banks' capital, surplus and undivided profits, immediately available for land reserve, would furnish at once an aggregate from this one source alone of from \$20,000,000 to \$100,000,000 as the combined capital reserves of the forty-eight national land banks—one in each state, this sum being divided approximately as follows:

#### AVAILABLE FOR LAND RESERVES FROM NATIONAL BANKS

Under "capital," appears the total capital stock, surplus and individual profits of all the national banks in each state on September 3, 1912. The amount available for land reserve, at 1 per cent of the capital, then appears, also at 2 per cent and at 5 per cent. Ciphers are used for the minor figures, to emphasize the comparisons.

|                     | Capital      | Amount for Land Reserve |           |           |
|---------------------|--------------|-------------------------|-----------|-----------|
|                     |              | If 1%                   | If 2%     | If 5%     |
| Maine -----         | \$14,100,000 | \$140,000               | \$280,000 | \$700,000 |
| New Hampshire ----  | 9,600,000    | 90,000                  | 190,000   | 480,000   |
| Vermont -----       | 8,900,000    | 80,000                  | 170,000   | 450,000   |
| Massachusetts ----- | 125,300,000  | 1,300,000               | 2,500,000 | 6,300,000 |
| Rhode Island -----  | 13,600,000   | 140,000                 | 270,000   | 680,000   |
| Connecticut -----   | 36,600,000   | 370,000                 | 730,000   | 1,830,000 |



|                        | Capital     | Amount for Land Reserve |           |            |
|------------------------|-------------|-------------------------|-----------|------------|
|                        |             | If 1%                   | If 2%     | If 5%      |
| New York -----         | 393,900,000 | 3,900,000               | 7,900,000 | 19,700,000 |
| New Jersey -----       | 54,600,000  | 540,000                 | 1,090,000 | 2,730,000  |
| Pennsylvania -----     | 277,900,000 | 2,800,000               | 5,500,000 | 13,900,000 |
| Delaware -----         | 5,300,000   | 50,000                  | 100,000   | 260,000    |
| Maryland -----         | 32,400,000  | 320,000                 | 640,000   | 1,620,000  |
| District of Columbia-- | 11,900,000  | 110,000                 | 230,000   | 600,000    |
| Virginia -----         | 31,800,000  | 320,000                 | 630,000   | 1,590,000  |
| West Virginia -----    | 16,600,000  | 160,000                 | 330,000   | 830,000    |
| North Carolina -----   | 12,900,000  | 120,000                 | 250,000   | 650,000    |
| South Carolina -----   | 9,100,000   | 90,000                  | 180,000   | 450,000    |
| Georgia -----          | 26,200,000  | 260,000                 | 520,000   | 1,310,000  |
| Florida -----          | 11,500,000  | 110,000                 | 230,000   | 580,000    |
| Alabama -----          | 16,500,000  | 170,000                 | 330,000   | 830,000    |
| Mississippi -----      | 5,500,000   | 60,000                  | 100,000   | 280,000    |
| Louisiana -----        | 14,600,000  | 150,000                 | 290,000   | 730,000    |
| Texas -----            | 81,780,000  | 820,000                 | 1,630,000 | 4,080,000  |
| Arkansas -----         | 7,800,000   | 70,000                  | 150,000   | 390,000    |
| Kentucky -----         | 28,200,000  | 280,000                 | 560,000   | 1,410,000  |
| Tennessee -----        | 20,200,000  | 200,000                 | 400,000   | 1,000,000  |
| Ohio -----             | 103,600,000 | 1,040,000               | 2,070,000 | 5,180,000  |
| Indiana -----          | 43,300,000  | 430,000                 | 870,000   | 2,170,000  |
| Illinois -----         | 131,200,000 | 1,310,000               | 2,620,000 | 6,560,000  |
| Michigan -----         | 25,800,000  | 260,000                 | 520,000   | 1,290,000  |
| Wisconsin -----        | 27,800,000  | 280,000                 | 560,000   | 1,390,000  |
| Minnesota -----        | 42,500,000  | 430,000                 | 850,000   | 2,130,000  |
| Iowa -----             | 34,500,000  | 350,000                 | 690,000   | 1,730,000  |
| Missouri -----         | 57,100,000  | 570,000                 | 1,140,000 | 2,860,000  |
| North Dakota -----     | 7,700,000   | 80,000                  | 150,000   | 390,000    |
| South Dakota -----     | 6,400,000   | 60,000                  | 130,000   | 320,000    |
| Nebraska -----         | 26,300,000  | 260,000                 | 530,000   | 1,320,000  |
| Kansas -----           | 20,400,000  | 200,000                 | 410,000   | 1,020,000  |
| Montana -----          | 9,200,000   | 90,000                  | 180,000   | 460,000    |
| Wyoming -----          | 3,500,000   | 40,000                  | 70,000    | 180,000    |
| Colorado -----         | 19,840,000  | 200,000                 | 390,000   | 990,000    |
| New Mexico -----       | 3,400,000   | 30,000                  | 70,000    | 170,000    |
| Oklahoma -----         | 19,300,000  | 190,000                 | 390,000   | 970,000    |
| Washington -----       | 18,700,000  | 190,000                 | 370,000   | 940,000    |
| Oregon -----           | 13,800,000  | 140,000                 | 270,000   | 690,000    |
| California -----       | 94,500,000  | 950,000                 | 1,890,000 | 4,730,000  |
| Idaho -----            | 5,000,000   | 50,000                  | 100,000   | 250,000    |
| Utah -----             | 5,600,000   | 60,000                  | 110,000   | 280,000    |
| Nevada -----           | 2,200,000   | 20,000                  | 40,000    | 110,000    |
| Arizona -----          | 2,100,000   | 20,000                  | 40,000    | 110,000    |
| Alaska -----           | 180,000     | 1,800                   | 3,600     | 9,000      |
| Hawaii -----           | 920,000     | 9,000                   | 18,000    | 45,000     |

## SUMMARY BY REGIONS

|                          | Capital       | Amount for Land Reserve |             |              |
|--------------------------|---------------|-------------------------|-------------|--------------|
|                          |               | If 1%                   | If 2%       | If 5%        |
| New England states----   | \$208,100,000 | \$2,080,000             | \$4,160,000 | \$10,400,000 |
| Eastern states -----     | 776,200,000   | 7,760,000               | 15,520,000  | 38,800,000   |
| Southern states -----    | 208,900,000   | 2,090,000               | 4,180,000   | 10,450,000   |
| Middle Western states..  | 464,500,000   | 4,650,000               | 9,300,000   | 23,230,000   |
| Western states -----     | 115,400,000   | 1,150,000               | 2,310,000   | 5,770,000    |
| Pacific states -----     | 142,700,000   | 1,430,000               | 2,850,000   | 7,140,000    |
| Island possessions ----- | 920,000       | 9,000                   | 18,000      | 45,000       |
| United States -----      | 1,989,700,000 | 19,900,000              | 39,780,000  | 99,450,000   |

It is to be distinctly understood that the deposit in the land reserve by national banks other than co-operatives, of a petty fraction of their capital stock, surplus and undivided profits, is in no sense a tax upon such national banks, though it may be constitutionally required by Congress under that guise. It is a permanent investment upon which the banks will be sure to receive a fair rate of interest, while banks that deposit 25 per cent of their capital in the reserve may receive extra dividends thereon.

This investment is made but once, being the specified percentage upon such resources or upon any increase therein. This deposit of 1 per cent to 5 per cent by existing national banks, or those hereafter formed, is the least they can do toward the promotion of a safely efficient system of land mortgage banking in America, that will issue land bonds of unquestioned value, in which these banks may invest profitably a considerable proportion of the deposits in their savings and trust departments.

Furthermore, this deposit in the land reserve by national banks does not involve them in the land mortgage business, nor conflict their commercial business with the land business. Congress has full right to decree that such investment is the least a national bank may do to promote a system that will be so advantageous to the federated national banks. It is one of those privileges and duties which should appertain to and inhere in the national bank franchise and permit to federate.

Each national land bank may invest in land bonds issued by other national land banks, should it have available surplus for the purpose over and above the needs of its own business.

***Commercial Banking Distinct From Land Finance,  
But Co-operates with It***

The method proposed is for a mortgage bank in each state under national law, analogous to the national commercial banking system, but any state may also incorporate mortgage banks with which any or all banks under state charters may be affiliated

It is important to have land finance distinct from, but co-operating with, other banks, both state and national, for these reasons:

1. The borrower and all the details of the loan, property, etc., are intimately familiar to the local bank which makes the loan. This familiarity and acquaintance makes it easy and convenient for both borrower and lender, and constitute the local bank the office at which the borrower may make his payment. The local bank already in existence, or one to be formed in each village as a national co-operative bank, is the logical place for this business to be transacted. Instead of unduly multiplying special institutions, utilize to the utmost those that now exist, or make new ones of the largest possible service. This will reduce expense and increase efficiency.

2. The ordinary bank is the place for people to do their usual banking. The whole system should be kept simple, compact, efficient, so that the whole people may enjoy its benefits. The land bank may be a supplement to the national banking system, rather than something foreign to American ways.

3. Without confusing different kinds of banking or mixing one form of liability with another, it is well to foster unity of interest, purpose and experience in banking as a whole, so that each phase of it may profit from the knowledge and patronage of all.



*Chapter XXXI**How the Land Bank Operates**Its membership and co-operative representation therein**Land banking kept separate from commercial banking**How organized and conducted**Relation of the local rural bank to the land bank**The farmer's relation to the land bank**Great advantages to the farmer**Present rates for interest only may also pay off principal*

ACH depositor in the land reserve of the land bank for any state, incorporated under the national law, as evidenced by the land bank's certificate, shall be entitled to one vote at the meetings of its members, irrespective of whether the depositor is an individual, a bank or other corporation, and also irrespective of the amount of his deposit, until the permanent organization is completed.

At subsequent meetings, any person or corporation having a deposit in the reserve of not less than \$1,000 may have one vote therein; any bank whose deposit is

not less than the average land reserve deposit of the co-operative banks, and each of the latter, shall have one vote only—no proxies allowed. Thus no means or object exists for unfavorable interests to acquire control. If the state itself is a depositor, it will always have one voting member in the land bank for each \$50,000 deposited, such member to be appointed by the governor and confirmed by the state senate, and to be a state official with supervisory powers.

The borrowers of money from the land bank upon the security of their farms, should have representation in the management thereof on this basis: All borrowers through any one national co-operative rural bank should meet annually and choose one of their number as their member of the land bank, and he would have one vote therein, the same as the member representing the local bank itself. In areas where there is no local bank which acts as agent for the land bank, the farmers who do business directly with the land bank shall be convened by it in annual meeting to choose their member of the land bank for said territory, which naturally may be a county, or a group of townships, as may be arranged by the trustees of the land bank.

This provides fair representation to all concerned and the best management in behalf of each interest. As time goes on, the majority vote in the land bank membership would be the members representing borrowers, and as the mortgages upon their property are pooled into one undivided security for all the bonds the land bank issues, self-interest will compel them to conduct the institution in the soundest manner. All three of the parties in interest—the land reserve owners, the borrowers, and the bond investors—have their respective interests fully safeguarded and adequately represented.

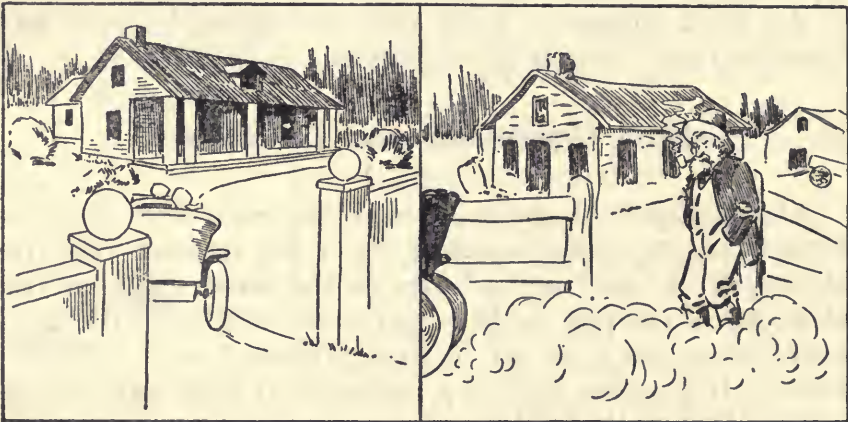
### ***How Organized and Conducted***

The members of the land bank for each state, as above described, at its annual meeting, elect the trustees, one from each county or lesser unit of area in the small states, or from each group of counties in the larger states, so that all the different sections of the state are fairly represented on the board of trustees. If the state itself is a depositor, it must have suitable representation on the board.

The trustees would elect the president, vice-president and other officers of the land bank, also such committees as are required, and define the duties and responsibilities of each in consonance with the federal statutes and the by-laws adopted. No officer of the land bank necessarily need be a trustee, but the president and vice-president would be trustee ex-officio. The

board would naturally pick out the ablest, most experienced and most devoted men for these positions. The income would be ample to pay for the best experts, and the managerial positions would carry honors and dignity.

All expenses would be kept down to the lowest possible limit, throughout every detail of the land mortgage business. The appraisers appointed by the local co-operative bank to pass upon the value of the property upon which a loan is desired, would serve without pay. In absence of such local agency, if the land bank itself sent an agent to the borrower, the latter would have to pay only a part of the agent's traveling expenses. The delegates who constitute the voting membership of the land bank would gladly give of their time and money, whatever is necessary to attend the bank meetings and to perform their duties therein. The trustees also should be willing to serve without pay, other than their actual expenses, but the officers who devote their entire time and abilities to the work of the land bank, should receive proper compensation, so that it may be assured of having the best available talent.



THE AMERICAN METHOD INSURES CONSERVATION, SUPERVISION AND ENCOURAGEMENT

The co-operator says to his wife, as he drives into the yard in their high power motor: "Well, Maria, isn't it a fine thing that we are members of our co-operative bank and of the land bank?"

Maria: "Indeed it is. The money we have got on our mortgage will enable us to have lots of conveniences in the house and at the barn that we have long needed."

Farmer: "Yes, and I can make that money earn double what it costs. Why, just think, Maria, the principal and interest that we have to pay now is hardly as much as I used to pay for interest alone."

The "Ne'er-do-well," seeing his thrifty neighbors drive by in their automobile, soliloquizes querulously, unsatisfied and unambitious:

"I don't take no stock in them banks. I got a mortgage on my place 25 years ago and haven't paid a dollar on it since. Bankers are all robbers. I never can get any money from them. If I could raise a loan, you bet I'd never pay it back. If there was more money per capita, I'd always have enough in my pockets to get all the drinks I want. What we poor folks need is more money—not any of this co-operative bank business they are talking so much about."



### ***Relation of the Local Rural Bank to the Land Bank***

It is expected that eventually there will be a co-operative rural bank under the national law in every rural village or country community. Through this agency the land bank will lend money on the farms within the territory of such co-operative banks. For its services, the local bank shall receive the usual broker's commission of one-eighth of 1 per cent upon each transaction it handles between the borrower and the land bank.

Each national co-operative rural bank through which the land bank accepts a mortgage, shall be responsible to the latter to the extent of twenty-five per cent of any loss which may *ultimately occur* upon such investment. For instance, assume that the Petersburg national co-operative rural bank of Boone county, Nebraska, approved a mortgage for say \$5,000, and ultimately the mortgage had to be foreclosed and the farm sold at a final net loss of \$1,000. Then and in that case, the Petersburg bank would have to pay the state land bank one-quarter of the loss, or the sum of \$250.

In a word, the local co-operative bank puts up one-quarter of its capital in the land reserve for its state, and stands one-quarter of any final loss which the land reserve has to meet as a result of any loan recommended by the local bank.

Yet it should be distinctly understood that the national co-operative rural bank through which the loan is placed, does not endorse the mortgage note, nor assume any other direct liability therefor. What it does undertake to do, in effect, is to say to the national land bank for its state:

"This is a good loan, we will watch the borrower; if things seem to be going to the bad on his place we will do what we can to help him to get ahead again, but rather than let it go too far we will co-operate with you in securing a larger payment upon the principal, or we will recommend you to foreclose before the price realized can be less than your claim against it; but should the thing have been wound up, and there is finally a loss on principal or accrued interest, then our local bank will pay one-quarter of such ultimate loss."

This is a very limited and specific liability for the local bank to assume, yet it is a vastly different matter from an outright guarantee of principal and interest of every mortgage that passes through the local bank. Furthermore, it involves no joint and several liability upon the individual shareholders of such bank; their only personal liability is twice the amount of the par value of their shares in the local bank, the same as in all national banks.

### ***Insures Conservation and Supervision***

By this device we accomplish the utmost care in the granting of mortgage loans, we keep the security good as long as the mortgage is outstanding, and in the remote contingency of ultimate loss, one-fourth of it is met by the bank that approved the loan, and the other three-fourths is borne by the land bank.

In doing all this, we avoid any form of joint and several unlimited liability on the part of individuals, which form of liability is deservedly unpopular in America, although it is at the foundation of much of the co-operative banking in Europe, but even there it is now being displaced by limited liability methods.

However, in consequence of the local bank's possible ultimate liability, the shareholders and depositors of the rural bank, also its directors and officers, will not only be careful and conservative in making mortgage loans or in recommending them, but will keep a watchful eye upon the borrower, and see to it that he conducts his farm properly, does not suffer any neglect of its resources, and that it always continues to be valid security for the loan. The local bank and its members will also see to it that the borrower is prompt in paying both his interest and amortization; thus the security for the loan will constantly increase in value, relative to the obligations outstanding against it.

Such local responsibility and direct oversight is an integral and important part of the method. It is one of the elements that must insure the largest success.

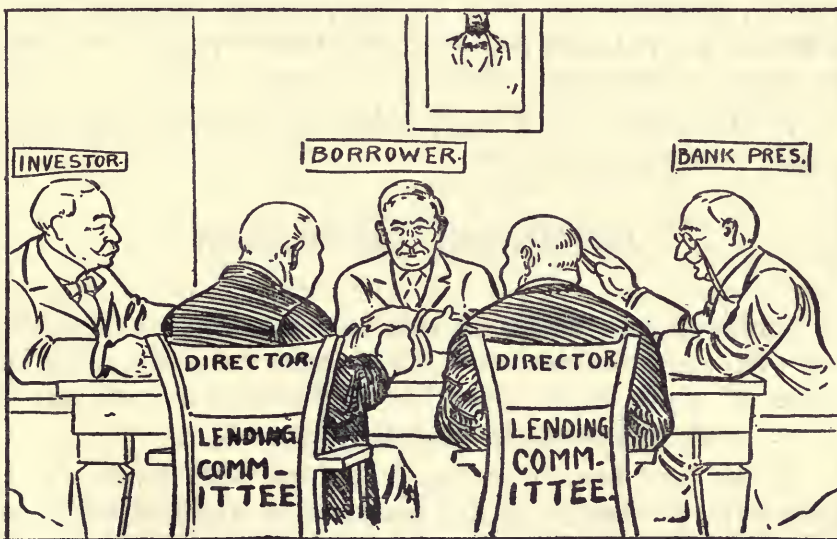
In case it transpires that the borrower is permitting his farm to run down, or is in arrears of payment, he can be called upon

to pay up part of the mortgage, or the whole of it may be demanded and the farm sold before it is so run down as to sell only at a loss. In these ways, the danger of loss is reduced to the utmost minimum, and under ordinary circumstances will never occur.

### ***The Farmer's Relation to the Land Bank***

The farmer applies to the national co-operative rural bank of which he is a customer, or that is located in his vicinity, for a loan on his farm. Let us assume that it is a small farm worth only \$1,500, and that the application is for \$1,000. Three appraisers appointed by the local bank—men of good judgment and intimate knowledge of local conditions—inspect the farm, the applicant and his methods, and finally recommend the loan.

The farmer then executes a note in favor of the state land bank for \$1,000, in which he agrees to observe all its regulations, and this note is secured by a mortgage of the property drawn in favor of the land bank. At a duly called meeting, the directors of the local bank officially approve the loan, sign a contract with the land bank setting forth the local bank's part in the mat-



THE BORROWER AND THE INVESTOR ARE REPRESENTED IN THE  
LAND BANK'S ADMINISTRATION



ter, and all the papers in the case are then forwarded to the land bank. After passing its scrutiny and being formally ratified by it, the land bank remits the \$1,000 to the local bank, which pays the sum over to the borrower, less a brokerage of one-eighth of 1 per cent, or \$1.25, and less such other expenses as may have been incurred for examination of title, etc.

For each \$1,000 thus loaned, the land bank may issue \$1,000 of its general bonds, provided its land reserve is sufficient to allow a margin of 5 per cent of the loan as a reserve against this amount of bonds. It sells these bonds (which are secured by all its assets, not merely by this specific mortgage) as it needs more cash to loan. The sale may or may not be through the local bank that negotiated the mortgage.

The farmer pays to his local bank semi-annually the interest as due, also the amortization once a year, which the bank remits to the land bank less one-eighth of 1 per cent brokerage. The land bank puts the amortization into its redemption fund, and the interest money into its current receipts.

The farmer may pay on his mortgage at any interest date any larger installment than the regular amortization, or may pay off the whole of the principal then outstanding, *but he can never be required to pay more than the amortization*, except in case of default or such serious decline in the farm's value as to impair the mortgage's security.

In the absence of a local bank, the farmer does business directly with the land bank.

### ***Interest and Amortization***

Included in the interest rate is a suitable amount for the land bank's expenses and reserves. In Germany this is usually one-quarter of 1 per cent; in the United States it may be one-half of 1 per cent; in France, it is 0.6 of 1 per cent

If the land bonds bearing 4 per cent sell at par, the rate to the borrower might be  $4\frac{1}{2}$  per cent, to which is added one-half of 1 per cent for expenses and reserves, making a total charge to the borrower of 5 per cent per annum. Assuming that

the farmer contracts to reduce the loan by paying off 1 per cent thereof annually—which would be \$10 a year on each \$1,000 of principal—the total amount paid by the borrower upon his loan for \$1,000, would be 6 per cent or \$60 each year, divided as follows:

|                                                |         |
|------------------------------------------------|---------|
| For interest at $4\frac{1}{2}$ per cent.....   | \$45.00 |
| For expenses, $\frac{1}{2}$ of 1 per cent..... | 5.00    |
| Applied on principal, 1 per cent or.....       | 10.00   |
| <hr/>                                          |         |
| Total, 6 per cent or.....                      | \$60.00 |

Now, the \$10 paid annually upon the principal earns interest in the land bank, or saves it interest when used to buy in and retire bonds, so the borrower gets the benefit thereof. He also participates in all earnings of the land bank over and above the sum required for its surplus. Whereas the payment of only \$10 a year without interest would take 100 years to pay off the debt of \$1,000, if compounded at 4 per cent the time is reduced to forty years. This period would be shortened by the additional earnings the land bank makes and apportions pro rata to this debt.

The larger the sum paid on principal annually (amortization), or the lower the interest rate, the sooner will the total annual payment (annuity) liquidate the debt. Land bank earnings would probably mature a 6 per cent obligation in about twenty-five years.

It would not require much extra effort for the average American farm family to increase the annuity, or to make larger payments on principal. Thus the average life of the farm mortgage under this method would be about a dozen or twenty years—a mere incident in the farmer's lifetime, instead of being a millstone about his neck all his years, as too often has been the case.

### ***Great Advantages to the Farmer***

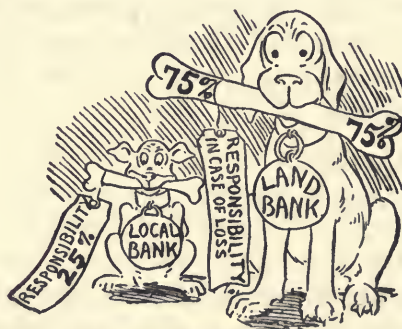
Certain it is that the *interest alone*, heretofore and now paid upon farm mortgages in the United States, *is sufficient to pay off the principal* in a relatively few years, besides paying the interest

meanwhile, provided these mortgages are refunded into the proposed American co-operative system.

This miracle does not make something from nothing, however; it simply so saves expense and adds to the advantages of farm loans, that the economies effected are sufficient to pay off the principal ere many years!

Another important feature is that each farmer who borrows money secured by mortgage on his farm, will be obliged to maintain the fertility and productive value of the farm. His neighbors and other members of the local co-operative bank through which the mortgage is placed will see that this is done.

Without being officious or interfering with private rights or the farmer's management, this policy of oversight and requirement for upkeep will have a profound influence toward better farming. For if a farmer is obliged to pay up his mortgage under penalty of foreclosure, because he suffers the security to decline, he will find it very difficult to borrow money elsewhere. This policy involves a quiet, persistent and effective encouragement to good agriculture, that must be of immeasurable benefit as years roll on.



**STRICTLY LIMITED LIABILITY**

The local co-operative bank does not guarantee principal or interest of the mortgages it negotiates for the national land bank of its state. What the local bank does do is to say that, should there be ultimately any loss on such a mortgage, the local bank will make up 25% of such loss. As a matter of fact there will not be any loss on one mortgage out of one thousand mortgages.



**Chapter XXXII**

***Benefits to Investors and Others***

*Why a land bank's farm bonds are the safest investment  
May become even better than government bonds*

*Legal investment for all savings and trust funds*

*Will convert tenants into proprietors*

*Guarding against historic error*

*A national federation of land banks to issue bonds for the  
foreign market only*

*Land banking must be a development, not a boom*



AW, custom and supervision would strictly safeguard the application upon outstanding bonds of the payments by the borrower upon principal. This would be accomplished by a sinking fund until the various series of bonds mature.

The American people do not take kindly to an indeterminate bond subject to call, so these farm bonds would have a specific date of maturity in series, as is the case with railroad bonds.

As borrowers could pay their debts either in money or by a tender of bonds at par, this would have the tendency to maintain the price or the market quotation for the bonds. In times of depression or uncertainty, if the land bonds fall below par, thrifty farmers would be quick to buy them at the reduced price in order to liquidate mortgages on the basis of par value for the bonds.

***Why Buy Guaranteed National Farm Bonds?***

The rare attractiveness to investors of these farm and home

bonds is manifest. Each and every bond would possess the the following attributes:

1. It would be in any desired denomination—\$10, \$20, \$50, \$100, \$500, \$1,000, or more. It would be registered or non-registered as the investor preferred. It would bear interest coupons, which could be collected without charge by simply depositing same in any bank.

2. This real estate bond would be absolutely free from any and all forms of taxation—national, state or local—except the inheritance or death taxes. The mortgages securing the bonds should also be free from all taxation, since the land itself bears all the taxes, and farms usually are taxed for more than they should be.

3. Each bank also acts as a center for buying and selling these land bonds. The public need not go to a broker or deal on the stock exchange in order to buy or sell land bonds, but can get them direct from its bank in its own vicinity. Hence, we at once secure a universally distributed market for these securities, with thousands of local agencies for their sale, and make them more available than any other investment security ever designed.

4. The security back of this bond is of the highest character and best type:

(a) It is issued by the land bank, thus insuring that every precaution has been taken, every technicality of state and national laws complied with, to make the bond itself and everything back of it absolutely incontestable.

(b) The investor looks only to the land bank for his interest and principal when due. The capital reserve and surplus of the land bank satisfies the investor as to the safety, validity and stability of its bonds, in addition to which the bonds have all the mortgages back of them.

(c) Each land bond, whether small or large, is secured by all the assets of the land bank. Its reserve, its surplus, and all of the mortgages it holds, are collectively, jointly and severally obligated to maintain the interest and to pay the principal of each bond as due.

(d) No bond is issued against any specific mortgage, which would confine its security to the particular piece of property covered by the mortgage. But all the mortgages in the treasury of the land bank are pooled as security for all its outstanding bonds. If here and there a mortgage should prove to be inferior or bad, the more than 99 per cent of the other mortgages in the bank treasury would be absolutely good, and therefore there could never be any default to the bondholder.

(e) Each mortgage is for an amount not exceeding two-thirds of the fair value of the property, appraised by disinterested experts, and is approved by the national co-operative rural bank through which it was negotiated, which institution guarantees to pay one-fourth of the ultimate loss should any occur. This proviso and the other features of the system, insure that every borrower shall pay his interest and amortization as due, and shall suffer no deterioration in the security.

(f) The annual payment upon principal, by constantly reducing the loan, with equal constancy is improving its value and adding to the security back of it. And this is true even though the land bank has to call in and retire bonds in amount equal to such amortization, or passes this fund and these payments over into its redemption fund with which to pay off the bonds at maturity.

### ***Better Even Than Government Bonds***

No bond in the world is better secured than that. Government and rulers may change, the republic may fall, but the people will remain and must have farms upon which to feed and homes in which to live. Government bonds may decline, state bonds may even be repudiated in the future as they have been in a few cases in the past, even the standard of measure of values may change, but the terms of the land bond will never change, its value will steadily increase or at least be preserved, and every dollar invested in it will be paid principal and interest in full.

Nothing but an overwhelming natural cataclysm that de-



stroys a whole state, can injure the credit, reduce the value, or delay the payment of income or principal of these land bonds. They are the nearest approach to an absolutely perfectly safe investment that the mind of man has yet devised.

All this will soon come to be the well-nigh unanimous opinion of the American people, whose money will automatically flow into these bonds, and thus fructify agriculture. The outcome will be to benefit all industries, all institutions, all individuals. Hence, the accumulation of wealth will become more rapid, and there will be larger surpluses than ever among the people for investment in other securities as well as land bonds. Instead of interfering with the market for corporate, railroad, state, city, county and town securities, the American people will be in a position to absorb them in the larger and larger quantities necessary to effect the improvement required by our rapidly growing population and advancing civilization.

### *Legal for All Trust Funds*

Land bonds should be a legal investment for the savings banks within the state in which they are located.

They will also be a legal investment for the savings deposits and trust funds of any national bank, state bank or trust company, or for the deposits in any bank of funds from the postal savings bank.



**A UNIVERSAL MARKET FOR NATIONAL FARM BONDS**

Not the least of the tremendous advantages to investors of the land bonds issued by the national land bank for each state, is that they can be bought or sold at every one of the more than 30,000 banks in the United States. You won't have to send to Wall street to buy or sell these farm bonds. They will be as safe as the soil itself. The hound "poverty" will never bark at your door if you have some money salted down in these farm bonds, which are proof against panic and poverty.

For these reasons, land mortgaging will be absorbed more and more by the land banks in each state, saving much work, expense and bother to national and other commercial banks, whose savings deposits the public properly demands shall be largely invested in real estate.

These bonds being in the highest degree not only safe but available, mobile, flexible, salable, realizable, will become the favorite investment for trust funds, executors and fiduciary institutions, as well as for the common people.

Persons in active business, or others who need cash at times, will desire this form of investment, because the bonds will always be acceptable collateral for loans at any bank, in case one does not want to sell them outright.

The poorest people will each want to have \$10, \$25, \$50, or \$100 salted down in this absolutely safe, non-taxable and always realizable security. Even the children should be educated to invest their savings in this manner.

It also appeals to the patriotic instincts, for every holder of a land bond, whether large or small, feels that he or she has a stake in the country. Being sold in small denominations, within the means of the humblest citizen, these land bonds will also encourage thrift; and once a people become thrifty, they are on the highway to economic prosperity and social contentment.

### ***Convert Tenants into Proprietors***

A great desideratum that will be fostered by my method of land mortgage banking, will be to convert tenants into owners. The present steady increase in tenant farming is a signal of one of the gravest perils which confronts the republic. As the older farmers have increased in wealth, they have bought more land; as their children have left the farm, these owners have been obliged to let the land to tenants.

This policy has also been fostered by the confidence that land values would continue to increase, and thus land has become the favorite safe investment for great numbers of well-to-do

farmers as well as those of means in other vocations, until there is danger of our becoming a nation of farm renters instead of farm owners. But by the mortgage plan proposed, it will now be relatively convenient for the tenant readily to obtain the funds with which to buy his farm.

Moreover, the rentals now received from farm property are comparatively small, in many instances not netting the owner more than 3 or 4 per cent upon the value of the land. Therefore, the owners will be glad to invest in land bonds the money they receive from the sale of their land, since such investment may net them fully as much, if not more, than the land rental, besides saving them all the trouble and bother of tenants and of land ownership, while giving them a security that is more readily negotiable or disposable.

Mortgages should be granted preferably upon farms owned and operated by their owners, though this should be a matter of understanding rather than a specific provision, so as to escape any unconstitutional discrimination in favor of such real estate owners. Instead of encouraging farm tenancy, put a premium upon farm ownership.

### ***Guarding Against Historic Error***

Why not use land bonds as a basis for an issue of money? Because this would violate every principle of sound economics. Experience has shown the dangers that lie in a bond-secured currency, even when the bonds are backed by all the resources of the national government. A land mortgage is a relatively permanent obligation: any form of credit currency should be quickly convertible into gold or its equivalent.

From the time of John Law down through the speculation in Argentine land debentures (cedulas) that caused the Baring failure and ushered in the worldwide panic of 1893, every effort to make land a basis of credit currency, or to overdo the issue of mortgage securities, or to put out mortgages in advance of the development of a region, inevitably have resulted in disastrous failure.



If there is any one thing more than another to be guarded against in the American land mortgage system, it is all such errors, wildcat ideas and violations of economic law. Our methods must be safe and sane, sound and true, economically scientific and socially righteous.

### ***Profit Sharing with Borrowers***

Once this American system of co-operative land mortgage banking is thoroughly established, the land bank's income from its borrowing members' annual contribution for its expenses, together with its revenues from its reserve and surplus, will defray all expenses and leave a handsome surplus, a fraction of which may be credited as a profit-sharing dividend to borrowers.

Such a dividend will be the capstone of the arch in this perfect method of mobilizing land credit for the mutual advantage of all concerned.

The social, educational and economic value to the people of this method, and of the thrift and experience in finance which it will inculcate, goes without saying. It will insure for all time that America shall be a nation of farm owners and home owners, stimulating thrift, restricting extravagance, cultivating prosperity, and developing patriotism.

Finally, it will be an easy matter to start a national land bank in any state. The work naturally should be in charge of the committee on co-operative national banks appointed for each state by the Secretary of the Treasury.

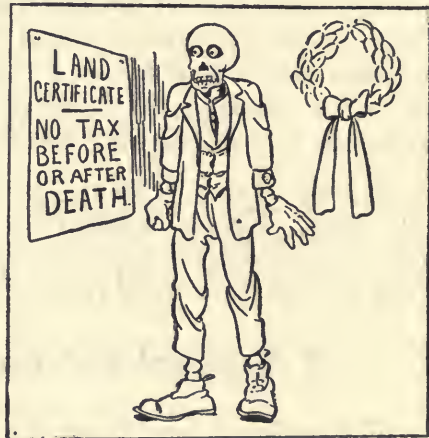
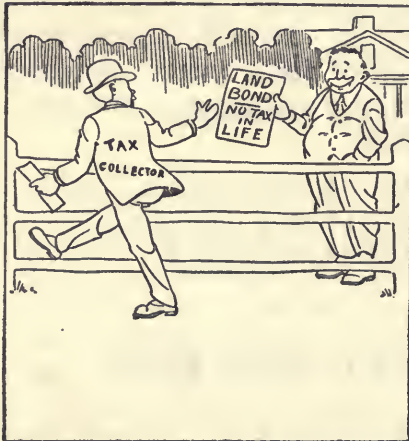
### ***A National Federation of Land Banks***

The national land bank for each state shall elect one member to represent it in the National American Land Bank. Each member thereof shall have one vote. It may create a federal land reserve by selling its certificates, bearing not to exceed 3 per cent interest, which shall be its permanent non-withdrawable capital. These certificates will be a legal investment for all banking institutions, and shall be free of tax—local, state and national—being in all these respects like government bonds.

The federal land reserve shall at all times be in amount equal to not less than 1 per cent nor more than 2 per cent of the American land bank's outstanding bonds.

Upon the security of the bonds of any national land bank for any state, deposited in the treasury of the American land bank, it may issue "National American Land Bank Bonds," bearing not to exceed 3 per cent. These bonds shall have no fixed date of maturity, but like British consols, French rentes and German imperial securities, may be called in and retired at any time upon due notice, but shall not be subject to payment upon demand of the holder. Interest coupons thereon shall be payable at any branch of the American Reserve Union in the United States, and in foreign countries at any branch of the proposed American export banks; also at many of the leading banks in the United Kingdom and on the continent of Europe and in other parts of the world.

These national American land bonds are designed only for the foreign market. To accomplish this purpose, the bonds are



#### AN INVESTMENT FREE FROM ALL TAXATION

The Tax Collector will not molest land BONDS issued by the national land bank for each state. Such bonds will yield 3 or 4 per cent annual interest, free from any and all forms of taxation during the life of the investor. The land pays the taxes, the investor accepts a low rate of interest partly because the land bond is free of all taxation, as well as because it is so safe, available and attractive otherwise. Since the land pays the taxes, one tax is enough. This is a practical application of one feature of the single tax that all will gladly agree to. These bonds will of course be subject to inheritance taxes. They will be the best safe investment.

Even all-conquering Death cannot lay his clammy hands upon the land CERTIFICATE. As a part of the Land Reserve, as the basis of the whole realty mortgage system, and yielding a somewhat lower rate of interest than land bonds, the land certificate is not only free from all taxation during the lifetime of the holder, but it is exempt from inheritance taxes or death taxes in any or all forms. It is the only investment ever devised that escapes death and taxes! For these reasons, land certificates will enjoy an increasing market, even if they yield only 3 per cent. When money gets easier again, they may yield as little as 2 or 2½ per cent and still be readily absorbed.

made *taxable in the United States*, the same as other personal property. Hence, they will be issued only to the extent that they may be absorbed easily by the foreign demand. They shall be sold in the foreign market through the agency of the American export banks.

This National American Land Bank shall not be established until the land bank for each state under federal law has reached the age of five years. In other words, the last of the national land banks to be established in any state must be five years old before these institutions may federate into the National American Land Bank. This proviso insures two important considerations:

1. It will have a tendency to encourage the people within each state to establish the national land bank therein without delay.
2. It insures that the American land bank, when it begins business, shall be a federation of thoroughly seasoned, entirely successful and firmly established American land mortgage banks. It is something to work for, and when it is achieved, it will be the capstone to the arch of American land credit.

These securities, as they became known abroad, would possess the implicit confidence of foreign investors, and could doubtless be sold to any extent desirable, provided the foreign money market would take them on a 3 per cent basis. Strict provision would be made for regulating the issue, retiring the bonds as fast as their underlying security was paid off, etc. This plan could be carried out for the foreign market, without interfering in any way with the domestic market for the land reserve certificates and non-taxable land-mortgage-bonds issued by the national land bank for each state.

My feeling is that our own people are rich enough to absorb our own mortgage securities. Up to the present, the international market for such securities has been a chimera. Even Germany failed in the attempt to create such a market. There are land bonds, issued by an imperial land bank and printed in German, French and English, that have found but small sale



outside of the Fatherland, and within the area of that country the bonds issued by provincial landschaften have been the more popular and ordinarily sell at the better price

### ***Must Be an Evolution***

Powerful influence will be brought to bear upon Congress to permit this national American land bank to be established at once, and to absorb all of the securities issued by the land bank of each and all of the states, so that there shall be outstanding against them only one form of combined obligation—the bond of the National American Land Bank. That demand should be refused, for the reasons heretofore stated in favor of local supervision and the operation of a land bank in each state.



#### **AVOID THE OLD FINANCIAL HERESY**

of using PERMANENT mortgages as a basis for CURRENT credit. The landschaften have prospered because they profited by this lesson of history. The Argentine collapse, the Baring failure and the panic of 1893, grew out of the over-issue of permanent and current bonds for development purposes in Argentina. Those oedulas were not used as currency, but there was over-expansion in their issue. The American people must play the game safely.

Land banking must be a growth, a development, an evolution. It must win its way into public confidence by the perfection of its methods, the soundness of its securities, the wisdom of its administration. All these essentials, separately and combined, must prove their worth by experience in order to come to their fullest fruition.

Capital is timid, investors are conservative, vested interests are thoroughly entrenched, existing institutions and methods are the result of experience. In creating a new method for mobilizing land credits, we would best go slow but sure, even to the extent of resisting the American characteristic of wanting "results" quickly.

## Recent Developments in Gold

In millions of dollars

### World's Production of Gold

|                              | United States | Africa | Australasia | Other | Total |
|------------------------------|---------------|--------|-------------|-------|-------|
| 1890-'99, ten years-----     | 467           | 420    | 458         | 615   | 1,960 |
| 1900-'10, eleven years-----  | 955           | 1,124  | 863         | 1,096 | 4,038 |
| Total, twenty-one years----- | 1,422         | 1,544  | 1,321       | 1,711 | 5,998 |

### World's Consumption of Gold

|                                                      | 1890-99<br>(10 years) | 1900-10<br>(11 years) | Increase<br>2d period<br>over 1st | 21 years<br>total<br>both periods |
|------------------------------------------------------|-----------------------|-----------------------|-----------------------------------|-----------------------------------|
| For industrial purposes-----                         | 570                   | 958                   | 388                               | 1,528                             |
| <i>a</i> Banks and treasury of United States-----    | 260                   | 727                   | 467                               | 987                               |
| <i>b</i> United Kingdom -----                        | 65                    | 21                    | —44                               | 86                                |
| <i>c</i> Other European banks-----                   | 622                   | 842                   | 220                               | 1,464                             |
| <i>d</i> Banks of Canada, Australia, Africa-----     | 60                    | 180                   | 120                               | 240                               |
| <i>e</i> Other banks, circulation and hoardings----- | 188                   | 288                   | 100                               | 476                               |
| <i>f</i> India has absorbed-----                     | 130                   | 433                   | 303                               | 563                               |
| <i>g</i> Egypt has absorbed-----                     | 65                    | 146                   | 81                                | 211                               |
| <i>h</i> South America has absorbed-----             | —                     | 343                   | 343                               | 343                               |
| <i>i</i> Japan, 69; Mexico, 28-----                  | —                     | 97                    | 97                                | 97                                |
| Total-----                                           | 1,960                 | 4,035                 | 2,075                             | 5,995                             |

|                                                                              |                  |     |
|------------------------------------------------------------------------------|------------------|-----|
| Industrial consumption increase second period over first-----                | 388 millions, or | 19% |
| Usual monetary consumption, <i>a, b, c, d, e</i> , increased over first----- | 863 millions, or | 41% |
| Unusual absorption, <i>e, f, g, h, i</i> -----                               | 824 millions, or | 40% |

Thus accounting for increased production second period over first... 2,075 millions, or 100%

### Stock of Gold Coin and Bullion in Sight

| December 31,                                                     | 1889  | 1899  | 1910  |
|------------------------------------------------------------------|-------|-------|-------|
| In Europe and United Kingdom-----                                | 914   | 1,601 | 2,464 |
| In United States-----                                            | 424   | 684   | 1,411 |
| Total-----                                                       | 1,338 | 2,285 | 3,875 |
| Increase in E., U. K. and U. S. over previous period-----        |       | 947   | 1,590 |
| Increased consumption in Egypt, India, Others, Canada, etc.----- |       | 443   | 1,487 |
| Industrial consumption -----                                     |       | 570   | 958   |
| Thus accounting for world's production each period of-----       |       | 1,960 | 4,035 |

SUMMARY.—The world's production of gold in the 21 years ended 31 December, 1910, rearranged above from the report of the Director of the United States mint, affords this conclusion:

|                                                       |       |
|-------------------------------------------------------|-------|
| Gold production in 21 years, millions of dollars----- | 5,998 |
| Industrial consumption -----                          | 1,528 |

Leaving an addition to the world's stock of gold coin and bullion----- 4,470



**Table A**  
**Relation of Reserves to Liabilities**

The following table is compiled from the abstracts of condition of national banks. It shows the components of the reserves held by all national banks at the dates noted, and assumes that all this reserve was lawful money and full legal tender, though technically speaking this is not true (see note 2). It shows the sums due *net* to state banking institutions, a considerable part of this being for legal tenders borrowed by nationals to maintain their reserves. Deducting latter from former, shows the net cash reserve

remaining. "Deposits" includes individual and United States deposits; adding bank notes, gives total demand liabilities subject to be called for payment practically without notice. The percentage of total cash reserves to such liabilities is then given, followed by the percentage of net reserves remaining after deducting dues to state bank. The last line shows percentage of all outstanding national bank notes that were redeemed in the course of the year.

**All in millions of dollars except the percentages indicated**

| Autumn of —                                      | 1900  | 1905  | 1906  | 1907  | 1912  |
|--------------------------------------------------|-------|-------|-------|-------|-------|
| Reserve in gold.....                             | 312   | 397   | 361   | 405   | 557   |
| Reserve in silver.....                           | 60    | 97    | 101   | 126   | 157   |
| Total metallic reserve.....                      | 372   | 494   | 462   | 531   | 714   |
| Reserve in paper.....                            | 162   | 197   | 191   | 200   | 220   |
| Aggregate reserve .....                          | 534   | 691   | 653   | 731   | 934   |
| Due state banks and trust companies,<br>net..... | 423   | 645   | 603   | 611   | 874   |
| Net cash reserve balance.....                    | 111   | 46    | 50    | 121   | 60    |
| Deposits .....                                   | 2,602 | 3,883 | 4,308 | 4,480 | 5,951 |
| Bank notes.....                                  | 284   | 469   | 830   | 552   | 714   |
| Total demand liabilities.....                    | 2,886 | 4,352 | 5,138 | 5,032 | 6,665 |
| Loans and discounts.....                         | 2,687 | 3,999 | 4,299 | 4,679 | 6,041 |
| Percentage reserves, gross.....                  | 19    | 18    | 15    | 14    | 14    |
| Percentage reserves, net.....                    | 3.8   | 1.05  | 1.11  | 1.25  | 0.9   |
| Capital, surplus and undivided profits           | 1,020 | 1,421 | 1,506 | 1,631 | 2,995 |
| Percentage redemption bank notes..               | 37    | 66    | 55    | 41    | 90    |

**Table B**  
**Gold Account of the United States**

*As shown by statement of the United States Treasury at close of business 3 September 1912, including also report of condition of national banks on the next day, September 4, 1912*

**In millions of dollars**

|                                                                     |       |                                                               |       |
|---------------------------------------------------------------------|-------|---------------------------------------------------------------|-------|
| Gold coin and refined bullion in trust fund in U. S. treasury ..... | 1,054 | Outstanding against it are gold certificates .....            | 1,054 |
| Other gold in U. S. treasury .....                                  | 167   | Of these gold certificates there are held by national banks.. | 320   |
| Total gold in treasury.....                                         | 1,221 | Leaving gold certificates elsewhere .....                     | 734   |
| Gold coin in national banks and clearing houses .....               | 237   |                                                               |       |
| Gold coin elsewhere.....                                            | 375   | "Free" gold in U. S. ....                                     | 779   |
| Total gold money in U. S. ....                                      | 1,833 | Total .....                                                   | 1,833 |



At the above date, if the national banks had drawn coin for all their gold certificates the account would stand:

|                                  |       |                                    |       |
|----------------------------------|-------|------------------------------------|-------|
| Trust fund in treasury-----      | 734   | Gold certificates outstanding----- | 734   |
| Other gold in treasury-----      | 167   |                                    |       |
| Total in U. S. treasury-----     | 901   |                                    |       |
| Gold coin in national banks----- | 557   |                                    |       |
| Gold coin in circulation-----    | 375   | "Free" gold in U. S.-----          | 1,099 |
| Total-----                       | 1,833 | Total-----                         | 1,833 |

Then the total cash account for all the national banks,

Which on 4 September 1912 stood at:

|                                   |     |
|-----------------------------------|-----|
| Gold coin -----                   | 237 |
| Gold certificates -----           | 320 |
| Silver and coin certificates----- | 157 |
| Nickels, cents, etc.-----         | 3   |
| 5 per cent redemption fund-----   | 35  |
| Due from U. S. treasurer-----     | 7   |
| Legal tender -----                | 182 |
| Total-----                        | 941 |

Would have stood as follows:

|                                   |     |
|-----------------------------------|-----|
| Gold coin -----                   | 557 |
| Silver and coin certificates----- | 157 |
| Nickels, cents, etc.-----         | 3   |
| 5 per cent redemption fund-----   | 35  |
| Due from U. S. treasurer-----     | 7   |
| Legal tender -----                | 182 |
| Total-----                        | 941 |

As a matter of fact there would never be any such complete transfer of gold from the federal treasury to the national banks. Whatever change there was, would be effected gradually. Likewise it might be several years before the government got into its treasury all of the \$683,000,000 of 2 per cent bonds in exchange for American money, as described in Chapter XIX. But the extremest phase of both transfers is here cited. Likewise the nationals would never completely settle their balances with state banks, as stated in Chapter XIX, but it is important to show the relations existing between the two.

By the plan illustrated on page 106, the nationals would now have total demand obligations of 5,951 millions, of which about 60 millions are United States deposits otherwise secured, leaving say 5,892 millions of individual deposits subject to reserve requirements. Against this the nationals would have to deposit 7 per cent in gold with their zone league of the American Reserve Union, amounting to 412 millions. They would have to keep in their vaults an average reserve of 8 per cent (in gold coin or other lawful money) amounting to 471 millions.

This would leave the nationals with some free reserve, in addition to which would be

their 714 millions of additional money received for the 2 per cent bonds they had cashed. In other words, they would have, over and above the required reserves, a free working balance of approximately 750 millions, or a free balance of about 6 per cent upon their total liabilities of 10,396 millions. Surely that is none too large a free balance in a business of such growing magnitude.

Assuming that the above had been consumed, the location of the gold in the United States as of 3-4 September 1912, would have stood:

|                                                |                        |
|------------------------------------------------|------------------------|
|                                                | Millions<br>of dollars |
| In the United States treasury-----             | 901                    |
| In American Reserve Union-----                 | 412                    |
| In national banks-----                         | 145                    |
| In state banks, hoardings and circulation----- | 375                    |
| Total-----                                     | 1,833                  |

The latest available complete data show that on 14 June 1912, all private banks and state banking institutions in the United States combined held of gold coin 88 millions, and of gold certificates 204 millions, or a total of 292 millions. The proportion varies at different seasons and in different years. The total stock of gold in the United

States as of 3-4 September 1912, doubtless was fully 1,850 millions of dollars. By January, 1914, it may be 2,000 millions.

It would seem conservative to conclude, therefore, that if the transmutations and exchanges suggested by this book were accomplished as of New Year's day, 1914, the triple gold reserves in the United States may then be divided approximately as follows:

|                                                          |                        |
|----------------------------------------------------------|------------------------|
|                                                          | Millions<br>of dollars |
| In the United States treasury-----                       | 1,000                  |
| In American Reserve Union-----                           | 500                    |
| In banks—national 150, state banks<br>100 -----          | 250                    |
| Leaving in hoardings and in circula-<br>tion about ----- | 250                    |
| Total-----                                               | 2,000                  |

For the first time in the history of the world a nation would thus be provided with triple gold reserves, and America would be that nation. Furthermore, the vast quantity of 500 millions of dollars in gold held by the American Reserve Union, *would have no claims whatever outstanding against it.* In this respect, it would be the greatest reserve of absolutely free gold ever known.

These 500 millions being subject to the control of a representative union of bank users and of bank owners, could be employed whenever and wherever needed to meet emergencies which the banks individually might not be able to take care of out of their own stocks of gold. In addition to such

double reserve, however, there would be the national reserve of 1,000 millions of dollars in gold to fall back on.

The government reserve protects less than 2,200 millions of American money, thus constituting a reserve of nearly 50 per cent in gold against each dollar of money outstanding in all forms.

Furthermore, the United States treasury would cancel and retire its holdings of bonds as fast as their place was taken by gold accruing to it from the profits of the American Reserve Union or from other sources. If necessary, the treasury could sell from its holdings of 2 per cent bonds, which would now yield 3 per cent, and thus add correspondingly to its reserve of gold. Should this plan be carried to its logical conclusion, all of the bonds in the table on page 152 eventually might be transformed into gold, which would ultimately increase the reserve to over 75 per cent. It is not too much to predict, therefore, that by 1925 the visible gold coin and refined bullion in the United States would equal 100 per cent of the American government money outstanding.

In addition to a triple reserve in actual tangible gold, the United States would have this fourth form of increasing its gold supply. On top of this, and fifthly, the American Reserve Union could so operate as to attract gold and hold on to it. Sixthly and finally, would remain as always the power of the government to sell bonds with which to purchase gold if some dire emergency required.

Kinds of Actual Cash on Hand

In dollars, millions and tenths of millions

| As reported 7 June 1911 |                     |                     |                      |             |                     |                |                     |                      | On 14 June 1912 |                  |                   |
|-------------------------|---------------------|---------------------|----------------------|-------------|---------------------|----------------|---------------------|----------------------|-----------------|------------------|-------------------|
| Private Banks           | Loan & Trust Comp's | Stock Savings Banks | Mutual Savings Banks | State Banks | Total of Fore-going | National Banks | Aggregate All Banks |                      | In Nat'l Banks  | State etc. Banks | Aggr'te All Banks |
| 1.2                     | 16.2                | 12.9                | 2.8                  | 46.3        | 79.4                | 153.4          | 232                 | --- Gold coin---     | 149             | 88               | 238               |
| 0.5                     | 138.6               | 1.5                 | 3.4                  | 45.3        | 189.3               | 434.4          | 624                 | Gold certificates    | 437             | 204              | 642               |
| 0.3                     | 1.6                 | 0.7                 | 0.2                  | 7.7         | 10.5                | 14.4           | 25                  | -- Silver dollars -- | 13              | 10               | 23                |
| 0.4                     | 25.3                | 1.0                 | 0.9                  | 26.6        | 54.2                | 140.3          | 195                 | Silver certificates  | 139             | 55               | 194               |
| 0.3                     | 3.5                 | 0.7                 | 1.2                  | 8.3         | 14.0                | 21.8           | 36                  | -- Minor coin---     | 23              | 15               | 38                |
| 0.7                     | 21.7                | 4.6                 | 1.9                  | 34.3        | 63.2                | 185.2          | 248                 | -- Legal tender--    | 188             | 64               | 252               |
| 1.0                     | 24.8                | 1.9                 | 3.3                  | 25.6        | 56.6                | 48.6           | 105                 | Nat'l bank notes     | 48              | 58               | 106               |
| 2.9                     | 38.2                | 3.2                 | 3.2                  | 42.5        | 90.0                | —              | 90                  | -- Other cash---     | —               | 82               | 82                |
| 7.3                     | 269.9               | 26.5                | 16.9                 | 236.6       | 557.2               | 998.1          | 1,555               | --- Total ---        | 997             | 576              | 1,573             |



## The Author of This Work

Herbert Myrick, author and economist, editor and publisher, inventor and manufacturer. Born at Arlington, Mass., childhood in New England, youth in Colorado; educated at public and private schools, Massachusetts agricultural college and Boston University; evolution—gardener, houseworker, rancher, printer, farmer, agricultural editor, author, editor-in-chief. President The Phelps Publishing Company, editor of its semi-monthly *Farm and Home*, over 500,000 subscribers; director of its magazine *Good Housekeeping* from 1900, when it had 3,000 subscribers, until 1911, when it was sold to the present owners with nearly 300,000 circulation. President Orange Judd Company, editor-in-chief of its five weeklies, with upward of 500,000 subscribers, each covering a specific territory—Orange Judd Northwest Farmstead at Minneapolis for the American northwest, Orange Judd Farmer at Chicago for the central west and mountain states, Orange Judd Southern Farming in Atlanta for the south, American Agriculturist at New York for the middle states, New England Homestead at Springfield for the east.

Author of: *How to Co-operate*, *The Hop*, *Turkeys and How to Grow Them*, *Tobacco Leaf*, *The American Sugar Industry*, *The Crisis in Agriculture*, *The Promise of Life*, *A Swim for Life*, *Money Crops*, *Cache la Poudre*—a tenderfoot's romance. President Educational Press Company, publishers of the weekly *Current Events*. Presi-

dent Metallic Drawing Roll Company, manufacturers of the device which has done for cotton manufacture, especially at the South, a work akin to that done for cotton production by the Whitney cotton gin.

Mr. Myrick has been a student of co-operation and of finance since 1880. His book, *How to Co-operate*, published in 1891, and since in many editions, briefly described the various forms of associated effort in banking in America and Europe, as well as other forms of co-operation. That book was the forerunner of the whole co-operative movement, "its teacher and leader," said Hon. Willet M. Hays, assistant secretary United States department of agriculture, in his public address at the dedication of the Myrick building, 12 November, 1908. As early as 1882 Mr. Myrick assisted in organizing the Springfield co-operative bank (building and loan association). In 1900 he wrote many editorials urging fiscal reform and people's banking. In 1909 he advised definite action by the Massachusetts legislature, which enacted the law for credit unions drafted by Pierre Jay, then state commissioner of savings banks. The first organized under that act was the Myrick credit union, formed upon their own initiative by his co-workers in the Myrick building. He has made repeated visits to Ireland, England and Europe for the investigation of their co-operative banking and other associated efforts; also their agriculture and other industries, social and political institutions.

### CO-OPERATION



*"United to assist, not combined to injure"*



# Index

|                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               | PAGE     |                                                                                                                                                                                                                                                                                                                                               | PAGE     |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             | PAGE         |                            |   |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------|----------------------------|---|
| Acceptances .....                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             | 67-74    | American zone league, see zone league                                                                                                                                                                                                                                                                                                         |          | Banks—Continued                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |              |                            |   |
| As used in Italy, 71—benefits of, 70—different from note, 74—in small transactions, 71—limited to short terms of credit, 72—use of, 67—what it is, 67                                                                                                                                                                                                                                                                                                                                                                         |          | American zone league, avoidance of favoritism .....                                                                                                                                                                                                                                                                                           | 22       | as market for securities, 22—combination of, should be illegal, 28—export, 82—function of, 109—government control of, 18—independence of necessary, 24—land, 82—lending of money and credits, 38—may sell its government bonds, 112—national American export, 102—needed for masses in cities and towns, 202, 209—need of small, 29—number of, 314—officers, 23—organization of, 23—part in exchange, 35—permitted to issue credit currency, 149—relation with clearing house, 79, 122—sell cash and credits, 42—servant, not master, 42—separation of departments, 27—service, 41—supervision of, 25, 26, 125, 132—the basis of banking federation, 78—will have ample money reserves, 186 |              | Basis for federation ..... | 8 |
| Accommodating the humblest....                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                | 221      | America's pre-eminence in gold may be further strengthened. 185                                                                                                                                                                                                                                                                               |          | Basis of American money .....                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               | 175          |                            |   |
| Account, gold, of the United States .....                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     | 302      | America's remarkable gains in gold production in 21 years..                                                                                                                                                                                                                                                                                   | 179      | Basis of business .....                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     | 4            |                            |   |
| Acknowledgments .....                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         | iv       | America's triple reserves of gold .....                                                                                                                                                                                                                                                                                                       | 185-191  | Basis of people's banks.....                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                | 205          |                            |   |
| Acquiring homes .....                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         | 253      | Amortization and interest of German land bonds .....                                                                                                                                                                                                                                                                                          | 259      | Beginning of postal savings system .....                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    | 192          |                            |   |
| Activities of clearing house .....                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            | 127      | Ample capital and surplus for export banks .....                                                                                                                                                                                                                                                                                              | 103      | Benefits                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |              |                            |   |
| Actual cash on hand, kinds .....                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              | 304      | Ample money reserves for banks. 186                                                                                                                                                                                                                                                                                                           |          | of acceptances, 70—to investors and others, 291.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |              |                            |   |
| Adapt finance to American conditions .....                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    | 11       | Apply modern credit instruments to world trade .....                                                                                                                                                                                                                                                                                          | 188      | Berry, William H. ....                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      | 48, 116, 313 |                            |   |
| Advantage of European discount rates over American.....                                                                                                                                                                                                                                                                                                                                                                                                                                                                       | 70       | Appreciation for bankers .....                                                                                                                                                                                                                                                                                                                | 10       | Better service through zone league .....                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    | 129          |                            |   |
| Advantage of land bank to farmer .....                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        | 289      | Architecture for zone leagues and reserve unions, its significance .....                                                                                                                                                                                                                                                                      | 83       | Bonds                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       |              |                            |   |
| Advantages of credit currency.....                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            | 50       | Art and science of banking.....                                                                                                                                                                                                                                                                                                               | 33       | Basis for, 29—of United States, sale of, by treasury, 304—of United States bought and sold by A. R. U., 143—issued by German landschaften, 259, 266—sold by Credit Foncier, 263.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |              |                            |   |
| Advantages to banks.....                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      | 157      | Association a natural law.....                                                                                                                                                                                                                                                                                                                | 5        | Bonds of national land banks                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |              |                            |   |
| Agency of zone league.....                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    | 129      | Association for building and loans .....                                                                                                                                                                                                                                                                                                      | 253      | Bought and sold in banks, 292—denominations of, 292—guaranteed, 291—how safeguarded, 291—non-taxable, 292—savings bank investments, 294—security of, 292.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |              |                            |   |
| Agriculture .....                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |          | Attractive investments are certificates of land reserve.....                                                                                                                                                                                                                                                                                  | 280      | Book credit                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |              |                            |   |
| America's great need, 249—basis of credit in U. S., 61—financial needs of, 11, 249—mortgage needs of, 251—neglected, 61.                                                                                                                                                                                                                                                                                                                                                                                                      |          | Author of this work.....                                                                                                                                                                                                                                                                                                                      | 323      | Meaning of, 45—of tenfold importance, 50—vs bank currency, 50—vs credit currency, 45.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       |              |                            |   |
| Agricultural conditions not practicable for building and loan associations .....                                                                                                                                                                                                                                                                                                                                                                                                                                              | 258      | Author's instrument for remitting .....                                                                                                                                                                                                                                                                                                       | 198      | Borrower                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |              |                            |   |
| Agricultural progress in relation to cash, credits and co-operation .....                                                                                                                                                                                                                                                                                                                                                                                                                                                     | 62       | Bank currency appearance unchanged .....                                                                                                                                                                                                                                                                                                      | 53       | a profit sharer, 297—in land banks represented, 283—in new mortgage system, 270—is the buyer, 43.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |              |                            |   |
| Aldrich .....                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 | 319      | Bankers .....                                                                                                                                                                                                                                                                                                                                 | 21       | Brandels, Louis D. ....                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     | 315          |                            |   |
| Aldrich bill—dead .....                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       | 160      | alone incompetent, 20—American, appreciation of, 10—not legislators but sworn public officials, 22—recognized, 10.                                                                                                                                                                                                                            |          | Bring existing methods within reach of common people....                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    | 225          |                            |   |
| Aldrich-Vreeland act .....                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    | 120, 126 | Banking                                                                                                                                                                                                                                                                                                                                       |          | Buffalo clearing house, tax imposed by it on checks and drafts .....                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        | 124          |                            |   |
| All defects remedied without disturbance .....                                                                                                                                                                                                                                                                                                                                                                                                                                                                                | 156      | business controlled by government, 19—conducted without change, 110—federation, co-operative organization of, 77—functions, usefulness of, 36—methods must be American, 320—methods, superiority of, 43—power of the United States, 305, 315—private should be abolished, 26—representation in local unions, 87—reserves of zone league, 131. |          | Building and Loan Association .....                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         | 253-258      |                            |   |
| All subject to Congress.....                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  | 98       | Bank reform                                                                                                                                                                                                                                                                                                                                   |          | in Massachusetts, 255—confined to limited localities, 256—copied in other countries, 256.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |              |                            |   |
| Amend national banking law .....                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              | 233      | Merits of, 84—essentials in, 24                                                                                                                                                                                                                                                                                                               |          | Bullion, stock of, and gold coin in world .....                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             | 306          |                            |   |
| America may dominate world's finance and economics.....                                                                                                                                                                                                                                                                                                                                                                                                                                                                       | 187      | Bank in new mortgage system .....                                                                                                                                                                                                                                                                                                             | 270, 294 | Business based on exchange....                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              | 4            |                            |   |
| America on hard-money basis, while Europe approaches relatively soft-money basis .....                                                                                                                                                                                                                                                                                                                                                                                                                                        | 175      | Bank note                                                                                                                                                                                                                                                                                                                                     |          | Business conducted without change .....                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     | 110          |                            |   |
| American banking, defects in....                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              | 65       | Canadian redemption of, 48—changes under new system, 51—definition by C. N. Fowler, 47—in United States, 49—mobile, not inflexible, 48—profit from circulation of, 157—relation to expansion and contraction, 48—replaced by government money, 151—Scotch, 48—supplanted by American money, 152, 154.                                         |          | Buying bills and rediscounting by American Reserve Union ....                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               | 142          |                            |   |
| American conditions.....                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      | 11       | Bank of England, method of voting .....                                                                                                                                                                                                                                                                                                       | 97       | Cahill, J. H. ....                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          | 315          |                            |   |
| American co-operative banks, plan for .....                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   | 232-244  | Bank owners justified .....                                                                                                                                                                                                                                                                                                                   | 97       | Canada's stock of gold.....                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 | 174, 314     |                            |   |
| American export banks.....                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    | 102      | Bank reserves.....110, 111, 114-116, 131                                                                                                                                                                                                                                                                                                      |          | Canadian bank note .....                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    | 48           |                            |   |
| American land mortgages .....                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 | 248      | May be used temporarily, 112—strengthened by change in money, 155.                                                                                                                                                                                                                                                                            |          | Canadian principle of review of reserve union law .....                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     | 139          |                            |   |
| Rates of interest, 288.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       |          | Bank taxes .....                                                                                                                                                                                                                                                                                                                              | 111      | Cannon, James G. ....                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       | 314          |                            |   |
| American method adapted to United States conditions.....                                                                                                                                                                                                                                                                                                                                                                                                                                                                      | 270      | Bankruptcy of banks                                                                                                                                                                                                                                                                                                                           |          |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |              |                            |   |
| American method of co-operative finance—purposes .....                                                                                                                                                                                                                                                                                                                                                                                                                                                                        | iii      | In Europe, 55—in United States, 55—prevented by inspection, 55.                                                                                                                                                                                                                                                                               |          |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |              |                            |   |
| American method of land mortgage banking, outline of....                                                                                                                                                                                                                                                                                                                                                                                                                                                                      | 269      | Bankruptcies .....                                                                                                                                                                                                                                                                                                                            | 16, 17   |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |              |                            |   |
| American money .....                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |          | Adoption of new system of procedure, 110—and exchange, 35—and public unite, 96—as agency for use of funds, 36—                                                                                                                                                                                                                                |          |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |              |                            |   |
| In place of bank notes, 152, 154—its superiority, 150.                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |          |                                                                                                                                                                                                                                                                                                                                               |          |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |              |                            |   |
| American Reserve Union .....                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  | 81-82    |                                                                                                                                                                                                                                                                                                                                               |          |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |              |                            |   |
| A co-operative union of interests, 88—aims exchange of credits, 95—buys and sells acceptances, etc., 142—controlled by federal government, 54—controls free gold reserve, 140—fiscal agent of government, 145—fixes rate of discount, 142—incorporated under national law, 139—insures manhood above money, 139—laws governing, 139—may buy bills and rediscount, 142—protects credit currency, 52—relation to zone league, 135—supervises zone league, 145—title, 89—to be chartered for twenty years, 98—what it does, 138. |          |                                                                                                                                                                                                                                                                                                                                               |          |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |              |                            |   |
| American trade, volume of....                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 | 14, 308  |                                                                                                                                                                                                                                                                                                                                               |          |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |              |                            |   |



| PAGE                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     | PAGE                                                                                                                                                                                                                                                                                                     | PAGE                                                                                                                                                                                                                                                            |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Capita, per, stocks of<br>all money by countries, 309—<br>debt and trade, 311—gold only<br>by countries, 309—money, loans,<br>wealth, 311.                                                                                                                                                                                                                                                                                                                                               | Congress has control of all bank-<br>ing ..... 98                                                                                                                                                                                                                                                        | Cromer, Lord ..... 209                                                                                                                                                                                                                                          |
| Capital<br>and name of a co-operative<br>bank, 233—and surplus for ex-<br>port banks, 103—of national<br>land banks, 272—of Raiffeisen<br>banks, 217.                                                                                                                                                                                                                                                                                                                                    | Congressmen review of bank-<br>ing system ..... 98                                                                                                                                                                                                                                                       | Currency<br>Automatically regulated, 54—<br>laws unchanged, 53—protection<br>of, 52—varying needs for, at<br>different seasons, 321.                                                                                                                            |
| Cash<br>and credits mobilized, 131—<br>and credits sold by banks, 42<br>—credits and co-operation in<br>grip of public, 99—kinds of,<br>14—kinds of, on hand, 304—<br>reserves strengthened, 155.                                                                                                                                                                                                                                                                                        | Considerations of importance in<br>money reform ..... 160                                                                                                                                                                                                                                                | Debt<br>Per capita stock of all coun-<br>tries, 311—total stock of all<br>countries, 311.                                                                                                                                                                       |
| Cater to popular needs ..... 29                                                                                                                                                                                                                                                                                                                                                                                                                                                          | Consumption and production of<br>gold of world ..... 166, 306                                                                                                                                                                                                                                            | Decentralization of credit ... 94, 139                                                                                                                                                                                                                          |
| Cause of high prices ..... 171                                                                                                                                                                                                                                                                                                                                                                                                                                                           | Contents, table of ..... v                                                                                                                                                                                                                                                                               | Decentralized finance of land-<br>schaften ..... 265                                                                                                                                                                                                            |
| Caution against mistakes in em-<br>ployment of postal deposits... 195                                                                                                                                                                                                                                                                                                                                                                                                                    | Contraction and expansion of re-<br>serves ..... 112                                                                                                                                                                                                                                                     | Declaration, A Momentous ..... xxix                                                                                                                                                                                                                             |
| Center of world's finance, New<br>York ..... 104                                                                                                                                                                                                                                                                                                                                                                                                                                         | Convenience of short credits... 73                                                                                                                                                                                                                                                                       | Decreased demand for gold .... 187                                                                                                                                                                                                                              |
| Centralization of reserves and<br>their mobility ..... 138                                                                                                                                                                                                                                                                                                                                                                                                                               | Conveniences that should be em-<br>braced in new Universal Postal<br>Orders or UPOs ..... 197                                                                                                                                                                                                            | Defects<br>of commercial banking, 63—in<br>American banking, 65—reme-<br>died without disturbance, 156.                                                                                                                                                         |
| Certificates<br>for land bank deposits, 271,<br>274, 282—of clearing houses,<br>126—of land banks, 271, 274—<br>of land reserves, 280.                                                                                                                                                                                                                                                                                                                                                   | Conversion of tenants into pro-<br>prietors ..... 295                                                                                                                                                                                                                                                    | Delimitation of each zone insured<br>Democracy in finance ..... 84                                                                                                                                                                                              |
| Championship of co-operative<br>farm finance ..... 307                                                                                                                                                                                                                                                                                                                                                                                                                                   | Co-operation<br>Among banks, basis of, 21—<br>benefits of, 5, 8—in acquiring<br>homes, 253—in banking, 57—<br>imparts safety to banking, 207<br>—is right, 9—needed in banks,<br>57—of land and commercial<br>banks, 281—vs combination, 8                                                               | Department of loans in clearing<br>house ..... 126                                                                                                                                                                                                              |
| Change in American money<br>needed ..... 151                                                                                                                                                                                                                                                                                                                                                                                                                                             | Co-operative banking<br>Basis of exchange, 5—its es-<br>sentials, 224—old established<br>success in Europe, 208—pur-<br>poses of, 225.                                                                                                                                                                   | Departmentized banking ..... 57                                                                                                                                                                                                                                 |
| Character, co-operation and patri-<br>otism in banking ..... 57                                                                                                                                                                                                                                                                                                                                                                                                                          | Co-operative banks ..... 205                                                                                                                                                                                                                                                                             | Departments of banks ..... 57                                                                                                                                                                                                                                   |
| Character, health, co-operation,<br>gold, land—fivefold reserves of<br>American people ..... 3                                                                                                                                                                                                                                                                                                                                                                                           | Effects of, 228—European type,<br>210, 212—hardly known in<br>America, 208—in Massachusetts,<br>255—management and supervi-<br>sion, 234—may take over exist-<br>ing small state banks, 244—<br>plan for, 233—powers, duties,<br>privileges, 233—purposes of,<br>225—title, 227—under state<br>law, 230. | Proposed regulation of, 58—<br>separated, 58.                                                                                                                                                                                                                   |
| Character of credit instruments... 16                                                                                                                                                                                                                                                                                                                                                                                                                                                    | Co-operative finance ..... 5                                                                                                                                                                                                                                                                             | Departments of clearing house... 123, 127                                                                                                                                                                                                                       |
| Character of our gold reserves ... 185                                                                                                                                                                                                                                                                                                                                                                                                                                                   | American method, purposes, iii.                                                                                                                                                                                                                                                                          | Deposit in gold with zone league<br>by national banks ..... 110                                                                                                                                                                                                 |
| Characteristics of present issue<br>of bank notes ..... 49                                                                                                                                                                                                                                                                                                                                                                                                                               | Co-operative German landschaften<br>restricted to a single state,<br>run economically ..... 260                                                                                                                                                                                                          | Depositors, not investors ..... 248                                                                                                                                                                                                                             |
| Chart of proposed American ex-<br>port banks ..... xiii                                                                                                                                                                                                                                                                                                                                                                                                                                  | Co-operative mobility of reserves<br>Co-operative organization for<br>banking federation ..... 77                                                                                                                                                                                                        | Depositors' votes in bank man-<br>agement ..... 97                                                                                                                                                                                                              |
| Charter the American Reserve<br>Union ..... 98                                                                                                                                                                                                                                                                                                                                                                                                                                           | Co-operative people's banks ... 78                                                                                                                                                                                                                                                                       | Deposits<br>Credits, loans, 36—in banks,<br>49—in land banks, withdrawals<br>of, 272—of national banks<br>in land banks, 281—of wage<br>earners' funds in building<br>and loan association, 255—<br>received by A. R. U., 143—<br>transferred by A. R. U., 144. |
| Checks<br>Collection of, 28—not legal<br>tender, 46—no tax for collec-<br>tion of, 124—use and function<br>in business, 46—use and func-<br>tion in England, Germany,<br>France, 49.                                                                                                                                                                                                                                                                                                     | Co-operative system ..... 270                                                                                                                                                                                                                                                                            | Detailed reasons of the "why" of<br>co-operative banks ..... 235                                                                                                                                                                                                |
| Circulation of credit currency<br>taxes ..... 111                                                                                                                                                                                                                                                                                                                                                                                                                                        | Co-operative principle of foreign<br>land mortgage banks ..... 266                                                                                                                                                                                                                                       | Details of legislation ..... 23                                                                                                                                                                                                                                 |
| Clearing house ..... 79                                                                                                                                                                                                                                                                                                                                                                                                                                                                  | Co-operative rural banks<br>Deposit in land bank reserves,<br>271—relations with national<br>land banks, 285.                                                                                                                                                                                            | Details of management of<br>Schulze-Delitzsch banks ..... 218                                                                                                                                                                                                   |
| Affiliation with zone league, 122<br>—certificates, 126—charters, 98<br>—committees, 79—department<br>of loans, 126—effects economy,<br>118—functions of, 118—how<br>operated, 123—its departments,<br>123, 127—its helpful activities,<br>127—its operation, 123—laws,<br>120—members, 79—need of<br>legal sanction, 119—outside<br>pale of law, 119—territory of,<br>121—to be incorporated under<br>federal law, 120—under federal<br>laws, 98—what it does, 117—<br>what it is, 118. | Co-operative union of interests<br>A. R. U. .... 88                                                                                                                                                                                                                                                      | Development of postal savings<br>system ..... 193                                                                                                                                                                                                               |
| Coin, gold and bullion, stock of<br>in world ..... 306                                                                                                                                                                                                                                                                                                                                                                                                                                   | Cost of money higher ..... 322                                                                                                                                                                                                                                                                           | Developments<br>Recent, in gold, 306—in use of<br>gold as money, 170.                                                                                                                                                                                           |
| Coinage of money confined to fed-<br>eral government ..... 149                                                                                                                                                                                                                                                                                                                                                                                                                           | Creation of land reserve ..... 277                                                                                                                                                                                                                                                                       | Difference between Schulze-De-<br>litzsch and Raiffeisen banks... 218                                                                                                                                                                                           |
| Combination of banks should be<br>illegal ..... 28                                                                                                                                                                                                                                                                                                                                                                                                                                       | Credit Agricole de France ..... 264                                                                                                                                                                                                                                                                      | Disastrous fluctuations in value<br>of New York and Berlin prop-<br>erty ..... 250                                                                                                                                                                              |
| Commercial banking distinct<br>from, yet co-operates with<br>land finance ..... 281                                                                                                                                                                                                                                                                                                                                                                                                      | Credit<br>Based on agriculture, 61—book<br>credit, 46—circulating defini-<br>tion, 47—needs of farmer, 61<br>—of banks, 36—redemption of,<br>47—resources of co-operative<br>banks, 205—two kinds of, 203,<br>232.                                                                                       | Discount markets ..... 69                                                                                                                                                                                                                                       |
| Commercial zone leagues ..... 80                                                                                                                                                                                                                                                                                                                                                                                                                                                         | Credit currency ..... 19                                                                                                                                                                                                                                                                                 | Discount rate fixed by A. R. U. ... 142                                                                                                                                                                                                                         |
| Common people's interests ..... 23                                                                                                                                                                                                                                                                                                                                                                                                                                                       | Advantages of, 50—circulation<br>of, 52—easily secured, 51—<br>function of, 47—issued by na-<br>tional banks, 111, 149, 158,<br>161—not included in reserves,<br>47—not money, 47—what it is,<br>46.                                                                                                     | Distinction between note and ac-<br>ceptance ..... 74                                                                                                                                                                                                           |
| Comparison of U. S. money with<br>other countries ..... 180                                                                                                                                                                                                                                                                                                                                                                                                                              | Credit Foncier de France .... 262-265                                                                                                                                                                                                                                                                    | District comptrollers of zone<br>leagues ..... 80                                                                                                                                                                                                               |
| Competition with England, Ger-<br>many and France, how to meet<br>it ..... 101                                                                                                                                                                                                                                                                                                                                                                                                           | Unsatisfactory to farmers, 264.                                                                                                                                                                                                                                                                          | Dividends, national bank ..... 313                                                                                                                                                                                                                              |
| Compound interest on money,<br>paying off mortgages ... 260, 288                                                                                                                                                                                                                                                                                                                                                                                                                         | Credit instruments ..... 15                                                                                                                                                                                                                                                                              | Divine Law ..... i                                                                                                                                                                                                                                              |
| Comptrollers of zone league dis-<br>tricts ..... 80                                                                                                                                                                                                                                                                                                                                                                                                                                      | Applied to world trade, 188.                                                                                                                                                                                                                                                                             | Domestic banks, relation to ex-<br>port banks ..... 104                                                                                                                                                                                                         |
| Conclusions ..... xxiv                                                                                                                                                                                                                                                                                                                                                                                                                                                                   | Credits<br>And cash sold by banks, 42—<br>and money, 13—decentraliza-<br>tion of, 94, 139—deposits,<br>loans, 36—on goods in transit,<br>72.                                                                                                                                                             | Dominance of America in world's<br>finance and economics ..... 187                                                                                                                                                                                              |
| Conditions of United States ..... 270                                                                                                                                                                                                                                                                                                                                                                                                                                                    | Credit unions<br>In Massachusetts, 208, 230—<br>Myrick, 230.                                                                                                                                                                                                                                             | Dominance of United States ... 105                                                                                                                                                                                                                              |
|                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |                                                                                                                                                                                                                                                                                                          | Double liability of shares in co-<br>operative banks ..... 233                                                                                                                                                                                                  |
|                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |                                                                                                                                                                                                                                                                                                          | Drafts and checks free from col-<br>lection charges ..... 124                                                                                                                                                                                                   |
|                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |                                                                                                                                                                                                                                                                                                          | Duties of American Reserve Union 143                                                                                                                                                                                                                            |
|                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |                                                                                                                                                                                                                                                                                                          | Duties of a national co-operative<br>bank ..... 233                                                                                                                                                                                                             |
|                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |                                                                                                                                                                                                                                                                                                          | Dynamic vs static money ..... 11                                                                                                                                                                                                                                |
|                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |                                                                                                                                                                                                                                                                                                          | Each bank independent ..... 24                                                                                                                                                                                                                                  |
|                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |                                                                                                                                                                                                                                                                                                          | Each land bank confined to a sin-<br>gle state ..... 275                                                                                                                                                                                                        |
|                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |                                                                                                                                                                                                                                                                                                          | Each national bank joins its clear-<br>ing house and zone league... 110                                                                                                                                                                                         |
|                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |                                                                                                                                                                                                                                                                                                          | Each zone an economic commer-<br>cial unit ..... 91                                                                                                                                                                                                             |
|                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |                                                                                                                                                                                                                                                                                                          | Earnings and expenses<br>of landschaften, 261—of land<br>banks, 272, 284.                                                                                                                                                                                       |
|                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |                                                                                                                                                                                                                                                                                                          | Easy to have credit currency<br>right ..... 51                                                                                                                                                                                                                  |



| PAGE                                                                                                          |         | PAGE                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |               | PAGE                                                                                                                                                                                                                                                    |          |
|---------------------------------------------------------------------------------------------------------------|---------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------|
| Economic commercial unit, the zone .....                                                                      | 91      | Form, best, of mutual savings bank .....                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          | 315           | Government—Continued                                                                                                                                                                                                                                    |          |
| Economic unity—Trinity of .....                                                                               | 4       | Forty-two zones not too many .....                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                | 93            | —money to replace bank notes, 151—permits banks to issue credit currency, 149—relations with A. R. U., 145—represented in A. R. U., 81—reserve, 45—what it does, 149.                                                                                   |          |
| Economy clearing house effects .....                                                                          | 118     | Foster the ideal of service .....                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 | 206           | Governors' letter .....                                                                                                                                                                                                                                 | xv       |
| Educative value .....                                                                                         | 229     | Fowler bill, 130—Fowler on reserves, 113—Fowler system, 96.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       |               | Great need of agriculture .....                                                                                                                                                                                                                         | 249      |
| Efficiency plus popular rights .....                                                                          | 95      | Fowler, Charles N. ....47, 84, 93, 96, 125, 130, 146, 160, 312, 318, 321                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |               | Growth of building and loan association .....                                                                                                                                                                                                           | 256      |
| Elementary principles of reform restated .....                                                                | 189     | Free gold reserve .....                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |               | Guarding against historic error .....                                                                                                                                                                                                                   | 296      |
| Elements of land banking, 3 principles .....                                                                  | 247-252 | controlled by A. R. U., 140—in zone league, 130—protects banks and public credit, 140.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |               | Hays, Willet M. ....                                                                                                                                                                                                                                    | 323      |
| Emanuel, Victor, King of Italy, 83, 307                                                                       |         | Free trade in money and credits .....                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             | 95            | Helpful activities of clearing house .....                                                                                                                                                                                                              | 121      |
| Emergencies, clearing house certificates or gold .....                                                        | 126     | French Credit Foncier .....                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       | 262           | Herrick, Myron T. ....212, 267, 322                                                                                                                                                                                                                     |          |
| Entire situation controlled by government .....                                                               | 149     | French land mortgage, rates of interest .....                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     | 263           | Higher cost of money .....                                                                                                                                                                                                                              | 322      |
| Equal banking representation in local unions .....                                                            | 87      | French land mortgage society .....                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                | 262           | Historic error guarded against .....                                                                                                                                                                                                                    | 296      |
| Equality for all .....                                                                                        | 25      | Further safeguards provided by banking reform .....                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               | 187           | Home paid for by rent .....                                                                                                                                                                                                                             | 253      |
| Essentials in banking reform .....                                                                            | 24      | Gain in world's reserves of gold .....                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            | 171           | Homely illustration of lending credit .....                                                                                                                                                                                                             | 39       |
| Essentials in co-operative banking .....                                                                      | 224     | Gain of United States in gold .....                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               | 167           | How a bank is conducted .....                                                                                                                                                                                                                           | 38-44    |
| European advantage over American discount rates .....                                                         | 70      | Gains in American gold production for 21 years .....                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              | 179           | How land bank operates .....                                                                                                                                                                                                                            | 282-290  |
| European mortgage finance .....                                                                               | 259     | German imperial land bonds .....                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  | 299           | How land reserve is created, 277-280                                                                                                                                                                                                                    |          |
| European people's banks, their success .....                                                                  | 210-223 | German land bonds, interest and amortization .....                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                | 259           | How Raiffeisen society is conducted .....                                                                                                                                                                                                               | 215      |
| Every sound principle observed .....                                                                          | 84      | German land mortgages, interest on .....                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          | 248, 259, 260 | Human factor in banking .....                                                                                                                                                                                                                           | 57       |
| Example of an acceptance .....                                                                                | 66      | German landschaften .....                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         | 259-262, 265  | Human spirituality .....                                                                                                                                                                                                                                | 6        |
| Example of nation to the states .....                                                                         | 30      | German loans on farms .....                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       | 251           | Humblest are accommodated by Luzzatti system .....                                                                                                                                                                                                      | 221      |
| Exchange and banking .....                                                                                    | 33-37   | German Raiffeisen system of banking .....                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         | 213           | Ideal of service .....                                                                                                                                                                                                                                  | 206      |
| Definition of, 4, 5—of credit facilitated by A. R. U., 95—principles of, 33.                                  |         | Germany's use of land as basis of credit .....                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    | 62            | Illustration of lending credit .....                                                                                                                                                                                                                    | 39       |
| Existent banks reorganized .....                                                                              | 78      | Glaring defects in commercial banking .....                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       | 63            | Illustrations, list of .....                                                                                                                                                                                                                            | vii      |
| Existing methods to be brought within reach of common people .....                                            | 225     | Gold .....                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |               | Importance of book credits .....                                                                                                                                                                                                                        | 50       |
| Expansion and contraction of reserves .....                                                                   | 112     | account of the U. S., 302—alone not cause of high prices, 170—annual supply of the U. S., 305—annual production of world, 305, 316—borrowed from federal treasury, 141—Canada's stock of, 174, 314—certificates exchanged, 160—consolidation of stock needed, 45—developments, recent, 306—in the arts, 168, 170—in panic of 1907, 4—in U. S. for 21 years, 179—its lessened demand, 187—per capita stocks of all money by countries, 309—per capita stocks of gold only by countries, 309—production and consumption of, 165, 182—recent and past production of whole world, 307—relation of high prices, 170—relation to loans and discounts, 175, 178—relation to paper money, 174—relation to volume of paper money, 174—situation transformed by new conditions, 165—standard, principle of, 189—standard to be left alone, 189—stock in sight, 306—stock of gold and bullion in world, 306—the standard of values, 13—total stock of, 172—total stock of by countries, 308—total supply of (world's), 316—world's consumption, 306—world's production, 306. |               | Importance of state units .....                                                                                                                                                                                                                         | 276      |
| Facilitating transfers of credits and exchange .....                                                          | 144     | Gold reserve .....                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |               | Important considerations .....                                                                                                                                                                                                                          | 91-99    |
| Facsimile example of an acceptance .....                                                                      | 66      | and decentralization, 95—compared to notes and loans, 318—controlled by A. R. U., 140—for three decades, 319—in zone league, 130—of America, character of, 185—results of, 186—safeguards of, 187—triple, of America, 185-191, 304—volume of, 186.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |               | in money reform, 160.                                                                                                                                                                                                                                   |          |
| Failure of banks with savings department .....                                                                | 61      | Good of all insured .....                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         | 85            | Important details of legislation .....                                                                                                                                                                                                                  | 23       |
| Failures, record of .....                                                                                     | 55      | Governing council of zone league .....                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            | 80            | Important lessons from foreign experience .....                                                                                                                                                                                                         | 267      |
| Farm bonds of land banks better than government bonds, 293—legal for trust funds, 293—safest investment, 291. |         | Government .....                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |               | Impossible to have money trust .....                                                                                                                                                                                                                    | 85       |
| Farm mortgages .....                                                                                          |         | alone coins money, 149—and banking, 18—bonds owned by banks, 112—coinsage of money, 18—control of banking business, 19, 149—deposits with A. R. U., 145—money, 18                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |               | Impregnable position of U. S. ....                                                                                                                                                                                                                      | 185      |
| How paid for, 289—principle of, 252.                                                                          |         |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |               | Impregnable reserves without one iota of inflation .....                                                                                                                                                                                                | 156      |
| Farmer benefited by land bank 289, 295                                                                        |         |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |               | Incorporation of American Reserve Union under national law .....                                                                                                                                                                                        | 139      |
| Farmers' need for credit .....                                                                                | 61      |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |               | Incorporation of clearing house under federal law .....                                                                                                                                                                                                 | 120      |
| Farmer's relation to national land bank .....                                                                 | 287     |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |               | Incorporation of people's banks .....                                                                                                                                                                                                                   | 78       |
| Farms better security than town real estate .....                                                             | 250     |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |               | Independence of banks preserved .....                                                                                                                                                                                                                   | 139      |
| Federal land reserves .....                                                                                   | 298     |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |               | Independence of each bank .....                                                                                                                                                                                                                         | 24       |
| Federation .....                                                                                              |         |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |               | Individual bank the basis of banking federation .....                                                                                                                                                                                                   | 78       |
| Co-operative, 29—merits of, 84—national, of land banks, 297—of banks, 29, 84—right basis of, 8.               |         |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |               | Individual person the unit for banking federation .....                                                                                                                                                                                                 | 77       |
| Final conclusions in U. S. gold extraordinary .....                                                           | 182     |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |               | Individual's relation to banks .....                                                                                                                                                                                                                    | 77       |
| Final result of reform .....                                                                                  | 190     |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |               | Inducements to co-operative and other banks to come into the land bank .....                                                                                                                                                                            | 273      |
| Finance adapted to American conditions .....                                                                  | 11      |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |               | Industry, not speculation, promoted .....                                                                                                                                                                                                               | 21       |
| Finance, co-operative .....                                                                                   | 5       |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |               | Inferior inspection .....                                                                                                                                                                                                                               | 55       |
| Financial problem as a whole .....                                                                            | 6       |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |               | Ingalls, Robert .....                                                                                                                                                                                                                                   | 212      |
| Financing our foreign trade .....                                                                             | 101     |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |               | Inspection and supervision .....                                                                                                                                                                                                                        | 125, 132 |
| Fiscal agent of government .....                                                                              | 145     |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |               | Instrument by author for transfer of money .....                                                                                                                                                                                                        | 198      |
| Fivefold reserves of American people .....                                                                    | 3       |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |               | Insurance of manhood above money .....                                                                                                                                                                                                                  | 139      |
| Fixing discount rate .....                                                                                    | 142     |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |               | Insurance, savings bank (life) .....                                                                                                                                                                                                                    | 315      |
| Fluctuation of money volume .....                                                                             | 159     |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |               | Insuring good of all .....                                                                                                                                                                                                                              | 85       |
| Fluctuations in value of New York and Berlin property .....                                                   | 250     |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |               | Interest .....                                                                                                                                                                                                                                          |          |
| Foreclosure easy, quick, inexpensive in European mortgage finance .....                                       | 267     |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |               | and amortization of German land bonds, 259—on French land mortgages, 263—on German land mortgages, 260—on land mortgages in U. S., 249, 288—on loans, statistics, 249—rates in building and loan association, 255—sufficient to pay off principal, 289. |          |
| Foreign experience, important lessons from .....                                                              | 267     |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |               | Interests of common people .....                                                                                                                                                                                                                        | 23       |
| Foreign land mortgage systems .....                                                                           | 266     |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |               | International Institute of Agriculture .....                                                                                                                                                                                                            | 218, 307 |
| Foreign trade financed .....                                                                                  | 82, 101 |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |               | Report on co-operative banks, 212.                                                                                                                                                                                                                      |          |



| PAGE                                                        | PAGE                                                      | PAGE                                 |
|-------------------------------------------------------------|-----------------------------------------------------------|--------------------------------------|
| Investors in new mortgage system ..... 270, 294             | Legitimate banking not interfered with ..... 26           | Money— <i>Continued</i>              |
| Issuance of credit currency to banks ..... 111              | Lending money and credits ..... 38                        | serves for banks ample, 186—         |
| Issue of money on land bonds unsafe ..... 296               | Lessons from foreign experience. 267                      | ten kinds of, 13—total stocks        |
| Jacobs ..... 67-70                                          | Lessons of present postal savings system ..... 193        | of all money by countries, 308,      |
| Jay, Pierre ..... 59, 60, 323                               | Levien, H. O. .... 314                                    | 311—total stocks of gold only        |
| Justice to bank owners ..... 97                             | Liabilities, relation of reserves to                      | by countries, 308—total stocks       |
| Kinds of actual cash on hand... 304                         | Liability of membership in clearing house ..... 121       | of in relation to wealth, trade      |
| Kinds of credit ..... 203, 232                              | Life insurance, savings bank ..... 315                    | and population, 310—money            |
| Kinds of money ..... 13                                     | Lincoln, Abraham ..... xi, 11,                            | trust impossible, 85—volume of,      |
| Kinley, Prof. David ..... 308                               | List of illustrations ..... vii                           | 14.                                  |
| Land bank borrowers represented. 283                        | Little banks helpful, economic and                        | Morawitz, Victor ..... 20            |
| Land banking                                                | educative centers ..... 204                               | Mortgage finance ..... 90            |
| a development, not a boom, 300                              | Loan system of national land bank, advantage of ..... 286 | European, 259-268.                   |
| elements of, 247-252—separate from commercial banking, 282. | Loans                                                     | Mortgage needs of agriculture .. 251 |
| Land banks                                                  | at low rates, 217—by banks, 38                            | Mortgages—how paid off by small      |
| Advantage of loan system, 286                               | —deposits, credits, 36—on                                 | payments and interest com-           |
| —advantage to farmer, 289—                                  | farms, 250—on farms in Ger-                               | pounded ..... 260, 288               |
| capital of, 272—certificates of,                            | many, 251—on real estate, pres-                           | Mortgages, see land mortgages        |
| 271, 274—confined to a single                               | ent method, 247—per capita                                | Moving the crops facilitated by      |
| state, 275—distinct from other                              | stocks of, 311—principles of,                             | short credits ..... 73               |
| banks, 281—expenses of, 284—                                | 252—rates, lottery features of                            | Mutual savings bank, best form       |
| for each state under national                               | Credit Foncier de France, 262                             | of ..... 315                         |
| law, 270—method of voting,                                  | —to farmers by French regional                            | Myrick, credit union ..... 230, 323  |
| 282—national federation of, 297                             | banks, 265.                                               | Myrick, Herbert ..... 323            |
| —non-taxable, 276—organiza-                                 | Lombard Investment Company... 248                         | "Myrick's law" ..... 62              |
| tion and conduct of, 270-283                                | Long term loans on rural prop-                            | Name and capital of a co-opera-      |
| relation to local rural banks,                              | erty mobilized ..... 251                                  | tive bank ..... 233                  |
| 285—slow growth desired, 300                                | Lottery features, rates, loans of                         | Nash, George A. .... 320             |
| —supervision of, 275, 277—                                  | Credit Foncier de France ... 262                          | National American export banks. 102  |
| territory of, 275.                                          | Low rates of loans ..... 217                              | National banking law to be           |
| Land banks' farm bonds                                      | Lubin, David ..... 12, 212, 307                           | amended ..... 233                    |
| better than government bonds,                               | Luzzatti, Luigi ..... 220                                 | National banks ..... 109-116         |
| 293—legal for trust funds, 293                              | Luzzatti system of banking ..... 220                      | Deposit with zone league, 110        |
| —safest investment, 291.                                    | Accommodates humblest, 221—                               | —deposits in land bank re-           |
| Land bonds ..... 291-300                                    | popularity of, 222.                                       | serves, 271—dividends, 313—          |
| as investments, 60—attributes                               | Management and organization of                            | issue credit currency, 111, 158      |
| of, 292—imperial, of Germany,                               | land bank ..... 283                                       | —may transact savings and            |
| 299—interest and amortization,                              | Management and resources .... 57                          | trust business, 114—retain re-       |
| 259—investments for savings                                 | Management and supervision of                             | serve, 111.                          |
| banks, 294—local, nontaxable,                               | a co-operative bank ..... 234                             | "National" building and loan as-     |
| 297—national, taxable, 297.                                 | Management, importance of ... 57                          | sociations ..... 256                 |
| Land credits, failure to mobilize. 247                      | Management of Raiffeisen banks. 215                       | National co-operative banks          |
| Land mortgage                                               | Management of Schulze-Delitzsch                           | Powers, duties and privileges,       |
| banking, 82, 90—business, vari-                             | banks ..... 218                                           | 233—will supplement, not com-        |
| ations of methods, 266—so-                                  | Manhood insured above money .. 139                        | pete with, existing banks, 227.      |
| ciety of France, 262—system as                              | Marvelous success of building                             | National federation of land banks    |
| needed in U. S., 267—system,                                | and loan association ..... 253                            | National land bank—See land          |
| suggested plan for, 269—sys-                                | Meaning of book credit ..... 45                           | bank.                                |
| tem of Europe, 266.                                         | Membership and co-operative re-                           | National monetary commission,        |
| Land mortgages                                              | presentation of land banks ... 282                        | 30—one feature meets with            |
| in Germany, 248, 259—in                                     | Membership liability in clearing                          | unanimous approval, 63.              |
| United States, 248—present                                  | house ..... 121                                           | National reserves ..... 3            |
| rates of interest in U. S., 249                             | Members' unlimited liability in                           | Nation's example to the states.. 30  |
| —should encourage land owner-                               | Raiffeisen banks ..... 215                                | Natural law—association ..... 5      |
| ship, 296.                                                  | Merits of bank federation ..... 84-90                     | Note and acceptance, distinction     |
| Land reserve certificates attrac-                           | Merits of system of building and                          | between ..... 74                     |
| tive investments ..... 280                                  | loan association ..... 257                                | Note issuance department of na-      |
| Land reserves                                               | Method for America ..... 269-281                          | tional banks ..... 58                |
| from national banks, 278—how                                | Methods, banking, must be Ameri-                          | Notes not issued by state banks. 58  |
| created, 277-280—inviolate per-                             | can ..... 320                                             | Necessary instrument for transfer    |
| manent capital, 271.                                        | Miracle of credits ..... 15                               | of money perfected by author         |
| Landschaften, The German ..... 266                          | Miscalled "nationals" a fraud ... 256                     | Need for American export banks       |
| Decentralizes finance, 265—                                 | Mistakes of foreign government                            | Need of agriculture ..... 202        |
| earnings and expenses, 261—of                               | in employment of postal sav-                              | Need of banks for the masses... 61   |
| provinces, 265—supervision of,                              | ings deposits to be guarded                               | Need of farmers for credit.... 297   |
| 262.                                                        | against ..... 195                                         | Need of United States—a thor-        |
| Large advantages to banks ..... 157                         | Mobility                                                  | oughly American method..... 267      |
| Law                                                         | In reserves, 95—and centraliza-                           | Needs for currency at different      |
| to amend national banking, 233                              | tion of reserves, 138.                                    | seasons ..... 321                    |
| —change in currency laws, 53—                               | Mobilizing                                                | Needs of agriculture ..... 251       |
| for acceptance and discount of                              | cash and credits, 131—land                                | New conditions have transformed      |
| bills of exchange, 67—for                                   | credits, lack of, 247—long term                           | gold situation ..... 165             |
| clearing houses, 120—for na-                                | loans on rural property, 251.                             | New demands for gold ..... 166       |
| tional land banks, 271—for sav-                             | Momentous Declaration, A ..... xxix                       | New developments in use of gold      |
| ings deposits, 60—governing A.                              | Momentous educative value .... 229                        | as money ..... 170                   |
| R. U., 139—protecting accepta-                              | Money                                                     | New economic transformations in-     |
| nces, 73.                                                   | and credits, 13-17—colned by                              | sure soundness of this method        |
| Law, John ..... 296                                         | federal government only, 149—                             | of reform ..... 162                  |
| Law, the Divine ..... i                                     | definition of, 150—dynamic vs                             | New phenomena in gold ..... 165-183  |
| League (state) of building and                              | static, 11—fluctuation in vol-                            | New York the center of world's       |
| loan associations ..... 256                                 | ume of, 159—government, 18                                | finance ..... 104                    |
| League, zone ..... 80                                       | —higher cost of, 322—kinds of                             | No adequate system for mobiliz-      |
| Leave gold standard alone .... 139                          | in United States, 13, 151—                                | land credits ..... 247               |
| Legal status of zone league .... 130                        | one uniform kind, 150—per                                 | No charges for collecting checks     |
| Legislation—details of ..... 23                             | capita stocks of all money by                             | and drafts ..... 124                 |
|                                                             | countries, 309—per capita                                 | Nomenclature ..... v                 |
|                                                             | stocks of gold only by countries,                         | No "Money Trust" ..... 9             |
|                                                             | 309—power popularized, 139—                               | No over-expansion or undue con-      |
|                                                             | price of equalized, 160—re-                               | traction of credit currency ... 52   |
|                                                             | deemable in gold coin, 18—re-                             | No undue interference with legiti-   |
|                                                             |                                                           | mate banking ..... 26                |
|                                                             |                                                           | Number of banks in U. S. .... 314    |
|                                                             |                                                           | Number of zones ..... 93             |



| PAGE                                                                                                                                                                              | PAGE    | PAGE                                                                                                                                                                                                                                                                                                                                                       |          |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------|
| Old established success in Europe of co-operative banking .....                                                                                                                   | 208     | Production, etc.— <i>Continued</i>                                                                                                                                                                                                                                                                                                                         |          |
| One uniform money .....                                                                                                                                                           | 150     | past for whole world, 307—world's annual, 316.                                                                                                                                                                                                                                                                                                             |          |
| "Only the United States lags lamentably behind" .....                                                                                                                             | 209     | Production and distribution ....                                                                                                                                                                                                                                                                                                                           | 34       |
| Operation of the clearing house .....                                                                                                                                             | 123     | Profit-making proposition, the Schulze-Delitzsch bank .....                                                                                                                                                                                                                                                                                                | 218      |
| Operation of land bank .....                                                                                                                                                      | 282-290 | Profit on circulation of bank notes .....                                                                                                                                                                                                                                                                                                                  | 157      |
| Organization and management of land bank .....                                                                                                                                    | 283     | Profit to shareholders .....                                                                                                                                                                                                                                                                                                                               | 41       |
| Organization for banking federation .....                                                                                                                                         | 77-83   | Promissory note vs time bill of exchange .....                                                                                                                                                                                                                                                                                                             | 69       |
| Organization of export banks under federal law .....                                                                                                                              | 102     | Promote industry, not speculation .....                                                                                                                                                                                                                                                                                                                    | 21       |
| Organized production and distribution .....                                                                                                                                       | 34      | Proper delimitation of each zone insured .....                                                                                                                                                                                                                                                                                                             | 92       |
| Origin and management of building and loan association .....                                                                                                                      | 253     | Proposition of reform can be carried out .....                                                                                                                                                                                                                                                                                                             | 189      |
| Other duties of American Reserve Union .....                                                                                                                                      | 143     | Protection for savings deposits ..                                                                                                                                                                                                                                                                                                                         | 59       |
| Outline of an American method of land mortgage banking .....                                                                                                                      | 269     | Protection of banks and public credit .....                                                                                                                                                                                                                                                                                                                | 140      |
| Outline of co-operative organization for banking federation ..                                                                                                                    | 77      | Public and banks unite .....                                                                                                                                                                                                                                                                                                                               | 96       |
| Part of bank in exchange .....                                                                                                                                                    | 35      | Public interest, precautions of ..                                                                                                                                                                                                                                                                                                                         | 28       |
| Par value of shares in co-operative banks .....                                                                                                                                   | 233     | Public must be represented in co-operative finance .....                                                                                                                                                                                                                                                                                                   | 20       |
| Patriotism and social service ....                                                                                                                                                | 230     | Public must keep its grip on cash, credits and co-operation ..                                                                                                                                                                                                                                                                                             | 99       |
| Patriotism, character, and co-operation in banking .....                                                                                                                          | 57      | Public supervision of private bankers .....                                                                                                                                                                                                                                                                                                                | 26       |
| People and the banks .....                                                                                                                                                        | 16      | Purposes of co-operative banking .....                                                                                                                                                                                                                                                                                                                     | 225      |
| People in any locality may incorporate a co-operative bank ..                                                                                                                     | 233     | Raiffeisen banks                                                                                                                                                                                                                                                                                                                                           |          |
| People, representation in banks ..                                                                                                                                                | 79      | How conducted, 215—system, 213—their capital, 217—unlimited liability of members, 215.                                                                                                                                                                                                                                                                     |          |
| People's banks .....                                                                                                                                                              | 202-209 | Rate of discount and exchange fixed by A. R. U. ....                                                                                                                                                                                                                                                                                                       | 141      |
| European, 208, 210-223—in Europe, 3 types, 212—in Quebec, 208—mortgage finance and export banking, 90—need of in cities and towns, 63, 78, 90—plan for, 233—self-help banks, 205. |         | Rates, loans, lottery features of Credit Foncier de France ....                                                                                                                                                                                                                                                                                            | 262      |
| People's representation simple, practical and certain .....                                                                                                                       | 85-86   | Reasons for co-operative banks ..                                                                                                                                                                                                                                                                                                                          | 235      |
| Per capita stocks                                                                                                                                                                 |         | Receiverships .....                                                                                                                                                                                                                                                                                                                                        | 134      |
| of all money by countries, 309—of gold only by countries, 309—of money, loans, wealth, debt and trade .....                                                                       | 311     | Recent developments in gold ....                                                                                                                                                                                                                                                                                                                           | 306      |
| Permanent capital, land reserve Pfandbrief, German land bonds ..                                                                                                                  | 271     | Record of building and loan association .....                                                                                                                                                                                                                                                                                                              | 255      |
| Price in war time, 266.                                                                                                                                                           |         | Record of failures .....                                                                                                                                                                                                                                                                                                                                   | 55       |
| Philadelphia union of building and loan association .....                                                                                                                         | 256     | Redemption of credit currency, 47 Of bank notes, 48.                                                                                                                                                                                                                                                                                                       |          |
| Plan for American co-operative banks .....                                                                                                                                        | 232-244 | References by numbers .....                                                                                                                                                                                                                                                                                                                                | 307      |
| Plenty of capital for Raiffeisen banks .....                                                                                                                                      | 217     | Reform in postal money orders ..                                                                                                                                                                                                                                                                                                                           | 196      |
| Popularizing the money power ..                                                                                                                                                   | 139     | People's part in, 20—popularly favored, 9.                                                                                                                                                                                                                                                                                                                 |          |
| Popular needs catered to .....                                                                                                                                                    | 29      | Relation                                                                                                                                                                                                                                                                                                                                                   |          |
| Popular rights plus efficiency ....                                                                                                                                               | 95      | of farmers to land bank, 287—of gold to loans and discounts, 175—of gold to volume of paper money, 174—of local rural bank to land bank, 285—of reserves to liabilities, 302.                                                                                                                                                                              |          |
| Popularity of Luzzatti system ..                                                                                                                                                  | 222     | Remarkable convenience of short credits .....                                                                                                                                                                                                                                                                                                              | 73       |
| Population, total stock of .....                                                                                                                                                  | 310     | Remarkable record of achievement of building and loan association .....                                                                                                                                                                                                                                                                                    | 255      |
| Post, C. W. ....                                                                                                                                                                  | 198     | Remarkable results in German people's banks .....                                                                                                                                                                                                                                                                                                          | 210      |
| Postal banking, remittance and collection .....                                                                                                                                   | 192-200 | Remove restrictions upon postal savings deposits .....                                                                                                                                                                                                                                                                                                     | 193      |
| Postal deposits, their investment ..                                                                                                                                              | 194     | Rent pays for home .....                                                                                                                                                                                                                                                                                                                                   | 253      |
| Postal money orders, their reform .....                                                                                                                                           | 196     | Reorganization of existing banks ..                                                                                                                                                                                                                                                                                                                        | 78       |
| Postal savings banks .....                                                                                                                                                        | 192     | Report of bank inspectors .....                                                                                                                                                                                                                                                                                                                            | 133      |
| Postal savings not invested .....                                                                                                                                                 | 194     | Representation                                                                                                                                                                                                                                                                                                                                             |          |
| Postal savings system, its beginning .....                                                                                                                                        | 192     | and membership of land bank, 282—of banks in local associations, 87—of people feasible, 85—of public in co-operative finance, 20—in zone league, 87.                                                                                                                                                                                                       |          |
| Postal service in its infancy .....                                                                                                                                               | 199     | Representative democracy in finance .....                                                                                                                                                                                                                                                                                                                  | 84       |
| Power, banking, of the U. S. 305, 315                                                                                                                                             |         | Reserve deposited by national banks with zone league .....                                                                                                                                                                                                                                                                                                 | 110      |
| Powers of the national co-operative bank .....                                                                                                                                    | 233     | Reserve of free gold controlled by American Reserve Union ..                                                                                                                                                                                                                                                                                               | 140, 304 |
| Pownall, G. H. ....                                                                                                                                                               | x       | Reserves                                                                                                                                                                                                                                                                                                                                                   |          |
| Precautions in public interest ..                                                                                                                                                 | 28      | Co-operative mobility of, 95—expansion and contraction of, 112—fivefold, of American people, 3—for land banks, 271—gold, compared to notes and discounts, 318—gold, for three decades, 319—gold (triple), 185, 191, 304—in zone leagues, 130—(land) inviolate permanent capital, 271—need of adequate, 45, 114—of banks may be used temporarily, 112—rela- |          |
| Present issue of bank notes .....                                                                                                                                                 | 49      |                                                                                                                                                                                                                                                                                                                                                            |          |
| Preservation of independence of banks .....                                                                                                                                       | 139     |                                                                                                                                                                                                                                                                                                                                                            |          |
| President's letter .....                                                                                                                                                          | xiii    |                                                                                                                                                                                                                                                                                                                                                            |          |
| Principal paid off by interest ..                                                                                                                                                 | 289     |                                                                                                                                                                                                                                                                                                                                                            |          |
| Principles of exchange .....                                                                                                                                                      | 33      |                                                                                                                                                                                                                                                                                                                                                            |          |
| Principles of reform restated ..                                                                                                                                                  | 189     |                                                                                                                                                                                                                                                                                                                                                            |          |
| Private banks not exempt from public supervision .....                                                                                                                            | 26      |                                                                                                                                                                                                                                                                                                                                                            |          |
| Privileges of a national co-operative bank .....                                                                                                                                  | 233     |                                                                                                                                                                                                                                                                                                                                                            |          |
| Production and consumption of gold                                                                                                                                                |         |                                                                                                                                                                                                                                                                                                                                                            |          |
| by world, 166—in world for 21 years, 178, 306—recent and                                                                                                                          |         |                                                                                                                                                                                                                                                                                                                                                            |          |
|                                                                                                                                                                                   |         | Reserves— <i>Continued</i>                                                                                                                                                                                                                                                                                                                                 |          |
|                                                                                                                                                                                   |         | tion to liabilities, 302—retained by national banks, 111.                                                                                                                                                                                                                                                                                                  |          |
|                                                                                                                                                                                   |         | Reserve Union, American, .81, 88, 98 Composition of, 81.                                                                                                                                                                                                                                                                                                   |          |
|                                                                                                                                                                                   |         | Resources and management ...                                                                                                                                                                                                                                                                                                                               | 57       |
|                                                                                                                                                                                   |         | Restrictions to be removed on postal savings deposits .....                                                                                                                                                                                                                                                                                                | 193      |
|                                                                                                                                                                                   |         | Result of reform .....                                                                                                                                                                                                                                                                                                                                     | 190      |
|                                                                                                                                                                                   |         | Retail trade revolutionized .....                                                                                                                                                                                                                                                                                                                          | 228      |
|                                                                                                                                                                                   |         | Right basis for federation .....                                                                                                                                                                                                                                                                                                                           | 8        |
|                                                                                                                                                                                   |         | Roosevelt, Theodore .....                                                                                                                                                                                                                                                                                                                                  | 322      |
|                                                                                                                                                                                   |         | Rural bank's relation to land bank .....                                                                                                                                                                                                                                                                                                                   | 285      |
|                                                                                                                                                                                   |         | Safeguards provided by banking reform .....                                                                                                                                                                                                                                                                                                                | 187      |
|                                                                                                                                                                                   |         | Safety imparted to banking by co-operation .....                                                                                                                                                                                                                                                                                                           | 207      |
|                                                                                                                                                                                   |         | Sale of United States bonds by treasury .....                                                                                                                                                                                                                                                                                                              | 304      |
|                                                                                                                                                                                   |         | Savings and trust business conducted by national banks .....                                                                                                                                                                                                                                                                                               | 114      |
|                                                                                                                                                                                   |         | Savings and trust funds subject to state law .....                                                                                                                                                                                                                                                                                                         | 60       |
|                                                                                                                                                                                   |         | Savings and trust reserve in zone league .....                                                                                                                                                                                                                                                                                                             | 132      |
|                                                                                                                                                                                   |         | Savings banks .....                                                                                                                                                                                                                                                                                                                                        | 114      |
|                                                                                                                                                                                   |         | In national banks, 58—laws reformed, 60—life insurance, 315—best form of mutual, 315.                                                                                                                                                                                                                                                                      |          |
|                                                                                                                                                                                   |         | Savings department governed by state laws .....                                                                                                                                                                                                                                                                                                            | 59       |
|                                                                                                                                                                                   |         | Savings departments in national banks .....                                                                                                                                                                                                                                                                                                                | 312      |
|                                                                                                                                                                                   |         | Savings deposits, protection of, Pierre Jay .....                                                                                                                                                                                                                                                                                                          | 59       |
|                                                                                                                                                                                   |         | Savings invested in land bonds 60, 294 Say, Leon .....                                                                                                                                                                                                                                                                                                     | 203      |
|                                                                                                                                                                                   |         | Schulze-Delitzsch bank                                                                                                                                                                                                                                                                                                                                     |          |
|                                                                                                                                                                                   |         | A profit-making proposition, 218—different from Raiffeisen banks, 218.                                                                                                                                                                                                                                                                                     |          |
|                                                                                                                                                                                   |         | Science and art of banking ....                                                                                                                                                                                                                                                                                                                            | 33       |
|                                                                                                                                                                                   |         | Scotch bank notes .....                                                                                                                                                                                                                                                                                                                                    | 48       |
|                                                                                                                                                                                   |         | Securities uniform with use of time bills of exchange .....                                                                                                                                                                                                                                                                                                | 69       |
|                                                                                                                                                                                   |         | Security farms afford over town real estate .....                                                                                                                                                                                                                                                                                                          | 250      |
|                                                                                                                                                                                   |         | Security for acceptances .....                                                                                                                                                                                                                                                                                                                             | 68       |
|                                                                                                                                                                                   |         | For discount rate, 69.                                                                                                                                                                                                                                                                                                                                     |          |
|                                                                                                                                                                                   |         | Self-help principal basis of co-operative people's banks ..                                                                                                                                                                                                                                                                                                | 205      |
|                                                                                                                                                                                   |         | Separation of bank departments ..                                                                                                                                                                                                                                                                                                                          | 58       |
|                                                                                                                                                                                   |         | Service of bank .....                                                                                                                                                                                                                                                                                                                                      | 41       |
|                                                                                                                                                                                   |         | Shareholders entitled to profit ..                                                                                                                                                                                                                                                                                                                         | 41       |
|                                                                                                                                                                                   |         | Shareholders in export banks ..                                                                                                                                                                                                                                                                                                                            | 105      |
|                                                                                                                                                                                   |         | Shares in co-operative banks, par value, double liability .....                                                                                                                                                                                                                                                                                            | 233      |
|                                                                                                                                                                                   |         | Short credits                                                                                                                                                                                                                                                                                                                                              |          |
|                                                                                                                                                                                   |         | facilitate moving the crops, 73—on goods in transit, 72—remarkably convenient, 73.                                                                                                                                                                                                                                                                         |          |
|                                                                                                                                                                                   |         | Significance of architecture of zone league and A. R. U. ....                                                                                                                                                                                                                                                                                              | 83       |
|                                                                                                                                                                                   |         | Small state banks may be taken over by co-operative banks ..                                                                                                                                                                                                                                                                                               | 244      |
|                                                                                                                                                                                   |         | Social service and patriotism ..                                                                                                                                                                                                                                                                                                                           | 230      |
|                                                                                                                                                                                   |         | Sound principles observed .....                                                                                                                                                                                                                                                                                                                            | 84       |
|                                                                                                                                                                                   |         | Soundness insured by new economic conditions .....                                                                                                                                                                                                                                                                                                         | 162      |
|                                                                                                                                                                                   |         | Southern commercial congress ..                                                                                                                                                                                                                                                                                                                            | 307      |
|                                                                                                                                                                                   |         | Speculation .....                                                                                                                                                                                                                                                                                                                                          | 22       |
|                                                                                                                                                                                   |         | Standard of gold to be left alone .....                                                                                                                                                                                                                                                                                                                    | 189      |
|                                                                                                                                                                                   |         | Standard of value—gold .....                                                                                                                                                                                                                                                                                                                               | 13       |
|                                                                                                                                                                                   |         | State bank laws for gold reserves .....                                                                                                                                                                                                                                                                                                                    | 155      |
|                                                                                                                                                                                   |         | State banks taken over by co-operative banks .....                                                                                                                                                                                                                                                                                                         | 244      |
|                                                                                                                                                                                   |         | State is unit of each land bank ..                                                                                                                                                                                                                                                                                                                         | 276      |
|                                                                                                                                                                                   |         | State league of building and loan associations .....                                                                                                                                                                                                                                                                                                       | 256      |
|                                                                                                                                                                                   |         | Status of zone league .....                                                                                                                                                                                                                                                                                                                                | 130      |
|                                                                                                                                                                                   |         | Stock, Canada's stock of gold 174, 314                                                                                                                                                                                                                                                                                                                     |          |
|                                                                                                                                                                                   |         | Stocks of money                                                                                                                                                                                                                                                                                                                                            |          |
|                                                                                                                                                                                   |         | Of gold money, 172—of gold coin and bullion, 306—of gold only (total) by countries, 308—of all money (total) by countries, 308—in relation to wealth, trade and population, 310—per capita, of all money by countries, 309—per capita of gold only by countries, 309.                                                                                      |          |

| PAGE                                                                                                                 | PAGE                                                                                                                                                                                                                                                                                                                                  | PAGE                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |
|----------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Strengthening America's pre-eminence in gold ..... 185                                                               | Transformation of gold situation by new conditions ..... 165                                                                                                                                                                                                                                                                          | Wealth—Continued                                                                                                                                                                                                                                                                                                                                                                                                                                                         |
| Strengthening of cash reserves.. 155                                                                                 | Transformation, how effected ... 156                                                                                                                                                                                                                                                                                                  | with other countries, 180—                                                                                                                                                                                                                                                                                                                                                                                                                                               |
| Subject to Congress ..... 98                                                                                         | Treasury sale of U. S. bonds ... 304                                                                                                                                                                                                                                                                                                  | per capita stocks of all countries, 311—total stock of all countries, 310.                                                                                                                                                                                                                                                                                                                                                                                               |
| Substitute American money for bank notes ..... 152, 154                                                              | Trinity of economic unity ..... 4                                                                                                                                                                                                                                                                                                     | Weed ..... 193                                                                                                                                                                                                                                                                                                                                                                                                                                                           |
| Success in Europe of co-operative banking ..... 208                                                                  | Triple reserves of gold .... 185, 304                                                                                                                                                                                                                                                                                                 | Welfare of "common people"... 202                                                                                                                                                                                                                                                                                                                                                                                                                                        |
| Success of European people's banks ..... 210                                                                         | Triumph of representation, organization, co-operation ... 90                                                                                                                                                                                                                                                                          | Well-deserved popularity of Luzzatti system ..... 222                                                                                                                                                                                                                                                                                                                                                                                                                    |
| Superiority of American money.. 150                                                                                  | Trust and savings business conducted by national banks ... 114                                                                                                                                                                                                                                                                        | What an acceptance is ..... 67                                                                                                                                                                                                                                                                                                                                                                                                                                           |
| Superiority of banking methods.. 43                                                                                  | Trust and savings funds subject to state law ..... 60                                                                                                                                                                                                                                                                                 | What credit currency is ..... 46                                                                                                                                                                                                                                                                                                                                                                                                                                         |
| Supervision                                                                                                          | Trust and savings reserve in zone league ..... 132                                                                                                                                                                                                                                                                                    | What each national bank does... 109                                                                                                                                                                                                                                                                                                                                                                                                                                      |
| of banks, 55, 132, 125—of landschaften, 262, 266—of national land banks, 275, 277, 286                               | Trust company business inspected 59                                                                                                                                                                                                                                                                                                   | What each state may do ..... xxv                                                                                                                                                                                                                                                                                                                                                                                                                                         |
| —of national co-operative banks, 234—of trust companies not required, 248—of zone league, 145.                       | Trust (money) impossible ..... 85                                                                                                                                                                                                                                                                                                     | What exchange is ..... 4                                                                                                                                                                                                                                                                                                                                                                                                                                                 |
| Supplement, not compete with, existing institutions ..... 227                                                        | Two kinds of credit ..... 203                                                                                                                                                                                                                                                                                                         | What the clearing house is ..... 118                                                                                                                                                                                                                                                                                                                                                                                                                                     |
| Supply and demand ..... 34                                                                                           | Types of European people's banks 212                                                                                                                                                                                                                                                                                                  | What the American Reserve Union does ..... 138                                                                                                                                                                                                                                                                                                                                                                                                                           |
| Supply, annual, of gold..... 305                                                                                     | Uniform money ..... 150                                                                                                                                                                                                                                                                                                               | What the clearing house does ... 117                                                                                                                                                                                                                                                                                                                                                                                                                                     |
| World's total of gold, 316.                                                                                          | Union, American Reserve .. 81, 88, 98                                                                                                                                                                                                                                                                                                 | What the government does .... 149                                                                                                                                                                                                                                                                                                                                                                                                                                        |
| Surplus and capital for export banks ..... 103                                                                       | United States                                                                                                                                                                                                                                                                                                                         | What the zone league does .... 129                                                                                                                                                                                                                                                                                                                                                                                                                                       |
| Table of contents ..... v                                                                                            | Annual supply of gold, 305—banking power, 305, 315—bonds sale of by treasury, 304—dominant in gold, trade and civilization, 105—gained more gold than any other nation, 167—gold account, 302—impregnable position, 185—"lags lamentably behind," 209—money compared to other countries, 180—needs a thoroughly American method, 267. | What the people insist on .... 227                                                                                                                                                                                                                                                                                                                                                                                                                                       |
| Taft, Wm. H. .... 249, 322                                                                                           | Unit of banking federation .... 77                                                                                                                                                                                                                                                                                                    | What the bank gets for its services ..... 40                                                                                                                                                                                                                                                                                                                                                                                                                             |
| Tax                                                                                                                  | Universal postal order, or UPO. 197                                                                                                                                                                                                                                                                                                   | Whitaker, Ezra D. .... 315                                                                                                                                                                                                                                                                                                                                                                                                                                               |
| on banks, 111—on circulation, use of income, 147—on land banks, 276—on land bonds, 297—on collection of checks, 124. | Unlimited liability of Raiffeisen banks ..... 215                                                                                                                                                                                                                                                                                     | Wholeness of financial problem.. 6                                                                                                                                                                                                                                                                                                                                                                                                                                       |
| Tenants converted into proprietors ..... 295                                                                         | Unprecedented new demands for gold ..... 166                                                                                                                                                                                                                                                                                          | Why European people's banks are successful ..... 210                                                                                                                                                                                                                                                                                                                                                                                                                     |
| Ten kinds of money ..... 13                                                                                          | Use and function of checks .... 46                                                                                                                                                                                                                                                                                                    | "Why" national co-operative banks? ..... 235                                                                                                                                                                                                                                                                                                                                                                                                                             |
| Territory of each land bank limited ..... 275                                                                        | Use of acceptances ..... 67                                                                                                                                                                                                                                                                                                           | Why the title "Co-operative bank" ..... 227                                                                                                                                                                                                                                                                                                                                                                                                                              |
| Three elements of land banking ..... 252                                                                             | Use of gold in the arts .... 168, 170                                                                                                                                                                                                                                                                                                 | Wilson, Woodrow ..... 322                                                                                                                                                                                                                                                                                                                                                                                                                                                |
| Threefold character of our gold reserves ..... 185                                                                   | Usefulness of banking functions. 36                                                                                                                                                                                                                                                                                                   | Wolff, Henry W. .... 315                                                                                                                                                                                                                                                                                                                                                                                                                                                 |
| Three types of people's banks in Europe ..... 212                                                                    | Value of New York and Berlin property fluctuates ..... 250                                                                                                                                                                                                                                                                            | Work of departments of clearing house ..... 123                                                                                                                                                                                                                                                                                                                                                                                                                          |
| Time bills of exchange vs promissory notes ..... 69                                                                  | Varying needs for currency at different seasons ..... 321                                                                                                                                                                                                                                                                             | World's annual production of gold 316                                                                                                                                                                                                                                                                                                                                                                                                                                    |
| Title "American Reserve Union" 89                                                                                    | Vastly lessened demand for gold 187                                                                                                                                                                                                                                                                                                   | World's finance, center of ..... 104                                                                                                                                                                                                                                                                                                                                                                                                                                     |
| Title "Co-operative Bank" ..... 227                                                                                  | Vast strengthening of cash reserves ..... 155                                                                                                                                                                                                                                                                                         | World's production of gold ..... 306                                                                                                                                                                                                                                                                                                                                                                                                                                     |
| Title page ..... ii and iii                                                                                          | Victor Emanuel, King of Italy 83, 307                                                                                                                                                                                                                                                                                                 | and consumption, 166—production for 21 years, 178.                                                                                                                                                                                                                                                                                                                                                                                                                       |
| Total stocks of money                                                                                                | Vision, The ..... ix                                                                                                                                                                                                                                                                                                                  | World's reserves of gold, gain... 171                                                                                                                                                                                                                                                                                                                                                                                                                                    |
| All money by countries, 308—gold, 172—gold only by countries, 308—in relation to wealth, trade and population, 310.  | Vital change in American money needed ..... 151                                                                                                                                                                                                                                                                                       | World's total supply of gold... 316                                                                                                                                                                                                                                                                                                                                                                                                                                      |
| Town real estate not as good security as farms ..... 250                                                             | Vital point of banking ..... 44                                                                                                                                                                                                                                                                                                       | Zone league ..... 80, 81                                                                                                                                                                                                                                                                                                                                                                                                                                                 |
| Trade                                                                                                                | Volume of American trade ... 14, 308                                                                                                                                                                                                                                                                                                  | An agency, 129—and clearing house, 122—controlled by bankers and customers, 54—co-operative for common weal, 130—does no business with public, 129—expenses, 129—Fowler bill, 130—its banking reserves, 131—its free gold reserve—legal status, 130—not run for profit, 129—relation to A. R. U., 134—relation to clearing house, 122—representation in A. R. U., 81—representation in, 87—savings and trust reserve, 132—supervised by A. R. U., 145—what it does, 129. |
| American, volume of, 14, 308—per capita stock of all countries, 311—total stock of all countries, 310.               | Volume of gold reserves ..... 186                                                                                                                                                                                                                                                                                                     | Zones                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |
| Transfer of credits and exchange 144                                                                                 | Volume of money ..... 14                                                                                                                                                                                                                                                                                                              | 42 not too many, 93—economic commercial units, 91.                                                                                                                                                                                                                                                                                                                                                                                                                       |
| Transfer of deposits by A. R. U. 144                                                                                 | May safely fluctuate, 159.                                                                                                                                                                                                                                                                                                            |                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |
|                                                                                                                      | Voting in land banks ..... 282                                                                                                                                                                                                                                                                                                        |                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |
|                                                                                                                      | Wage earners' savings ..... 255                                                                                                                                                                                                                                                                                                       |                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |
|                                                                                                                      | Wealth                                                                                                                                                                                                                                                                                                                                |                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |
|                                                                                                                      | Aggregate of U. S. compared                                                                                                                                                                                                                                                                                                           |                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |

Health—physical, mental, spiritual—being the fundamental human reserve of the American nation, this work concludes with the author's invocation upon the Right Use of Health.



# The Right Use of Health<sup>\*</sup>

## AN INVOCATION

Uttered in humility and penitence, by one who feels implicit confidence in God's infinite power, sublime mercy and universal presence

*Exalt thyself, O my life!*

*Exult in thy broader vision!*

**W**HATEVER powers be in me, dedicate anew to larger service, to wider usefulness, to nobler endeavor.

**I**NSPIRE me with the divine energy which seeks expression in duty well done. Grant me the sight always to see that which I should do, and the will to do it aright.

**T**EACH me to conserve my physical, mental and spiritual forces so that they may unite in a Trinity of Health. Enable me to consecrate my health to the service of God from whence it comes, and to do this by better serving my fellow-men.

**L**EAD me into the Infinite Harmony, the poise of Nature, "the peace of God which passeth all understanding." Attune my being to receive Thy vibrations, make of me an instrument for transmitting Thy will.

**H**ELP me, O God, to nourish my Body in holiness and health—to keep it free from all evil tendencies or unrighteous

actions, to know its marvels and wisely to use them, rather than ignorantly or wickedly to abuse its wonders.

**A**ND help me yet more, O Lord, in Mind-growth and mental strength. Aid me to expand my thinking powers, further develop my reason, enrich my affections and emotions, increase my vigor of will, guide my hopes and enthusiasms, banish my fears and worries, encourage me to bear my burdens, stimulate my self-control, refresh my earnestness of purpose, enlarge my love for the beautiful.

**T**HUS, with Thy ever-present help, Lord God Almighty, may my Body and Mind always be a fitting temple for my Soul—for Thy spirit in me with which in its fullness I am Truth and Strength, Faith and Love, Health and Happiness, but without which I am merely human.

**F**EED Thou my whole life—direct Body, Mind and Soul to co-operate in unison for efficiency, progress, contentment, joy, service, truth.

*Amen.*



<sup>\*</sup>By HERBERT MYRICK, president Orange Judd Company. Written while sailing out from the broad Atlantic between the Pillars of Hercules into the blue Mediterranean, after drinking in the ozone of the great waters, being inspired by the nearness of the Creator, rejuvenated by brief freedom from care, rejoicing in the harmony of Nature! Mr. Myrick maintains that the trinity of health is the fundamental basis for efficient endeavor, the vital insurance of glorious achievement



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